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The Case for Economic Cooperation and Development in the Central Carpathian Region: The Euroregion Model

by

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Part One: Introduction

> *The creation of a tolerant, prosperous and safe Europe does not depend only on cooperation between states. It also requires transfrontier cooperation between local and regional authorities, without prejudice to the construction and the territorial integrity of each state.*

This paragraph from the Vienna Declaration is a hopeful statement. It describes the role that transboundary cooperation can play today in conflict prevention and in confidence building among local and regional peoples along the national borders of Europe.

Opening international boundaries runs counter to European history since World War II, with its closed and guarded borders that separated people. Since 1989, however, as political changes continue to re-define how Central and Eastern -- indeed all -- Europeans live, transboundary cooperation is increasingly seen as a significant step to European economic, political and social unity. Regular meetings, communications, exchanges, even economic cooperation across borders help to diminish suspicions and the potential for misunderstanding and conflict between peoples and states.

Transboundary Cooperation

Why study transboundary cooperation? Previously in Central and Eastern Europe the movement of frontier residents and their property was controlled by the state which restricted the activities of individuals. In recent times, however, transboundary cooperation has been significantly adopted to the new requirements of co-ordinating public service activities. As a result, it has entered the era of public policy, raising at the same time the fundamental question of the division of powers between the various public authorities within a state capable of exercising responsibility for these policies.

Transboundary cooperation implies a cross-border approach at all levels -- from national to municipal -- necessitating co-ordination and agreement to avoid clashes between adjacent countries. Transboundary cooperation has also changed in terms of the participants. Long a virtual monopoly of states, it is now directly affected by the redistribution of power that, in part, sees some transboundary political and economic cooperation shifting from the core to the periphery, from the capital to the country's borders, with attendant anxieties from the centre. This "decentralized transfrontier cooperation" is being manifested by greater -- indeed, often much greater -- participation by sub-state authorities.

Demands, generally from the periphery, for strengthening the authority of sub-state actors are growing, for two reasons: (1) on the ideological level, sub-state authorities are basing their new rights on the principle of "participatory democracy"; (2) on the more technical level, these same authorities are attempting to extend their activities into the international arena in the name of efficiency.

Transboundary cooperation is not a new phenomena. People and goods have moved across the shifting borders of Europe with varying degrees of ease during the last several centuries. Following World War II, however, western and eastern Europe were divided into two opposing ideological as well as geographical entities. In eastern Europe, the political role of international borders was strengthened and their degree of openness decreased accordingly. Crossing borders became difficult, if not impossible; borders became almost impenetrable barriers between peoples. By contrast, in western Europe the political and economic function of international borders gradually diminished as the European Community concept took hold.

Today, as a result of events in 1989-1990, border regions in both east and west are not barriers, but links in the process of complete European integration. Transboundary cooperation is seen as playing a role in improving employment opportunities across international boundaries, supporting the development of pan-European transport routes and communication networks and even helping to protect the environment and natural resources. This concept is based on the principle of mutual advantage that brings practical and tangible results to the people of the regions.

The Euroregions

This paper examines the Euroregions and focuses on the Carpathian Euroregion as a case study of the evolving concept of transboundary cooperation. The Euroregions were the first such local and transboundary institutions created in Europe following World War II.

The paper contains a simple proposal: That the Euroregions, with their emphasis on economic growth, may be one of the most significant agents for political stability in Central and Eastern Europe. Regional economic development may engender transboundary cooperation, with its great potential for confidence building. This paper further argues that this formula -- economic development linked to transboundary cooperation -- may diminish the potential for conflict in this region undergoing rapid transformation. A Euroregion is, by definition, located along a country's borders often at some distance from the capital. In Central and Eastern Europe, these border areas are especially affected by the negative results of the transformation taking place in the region: unemployment is high; development, poor; foreign investment, absent; state enterprises, weak. Attracting private sector development and foreign investment could build confidence in the border areas and begin to address the volatile economic, social and political problems with their potential for conflict. One of the premises of the Euroregion is to create the possibility for transboundary economic, social and political cooperation. In some parts of Central and Eastern Europe -- and especially in the Carpathian Euroregion -- this race between conflict and cooperation is underway.

The Carpathian Euroregion is the single largest Euroregion in terms of area (104,989 km2) and population (about 10 million people). It covers parts of five countries (Hungary, Romania, Slovakia, Ukraine and Poland) and contains a mosaic of nationalities, cultures and religions. In the words of the The Institute for EastWest Studies, the Carpathian Euroregion is "a microcosm of the new Europe, containing a potentially volatile mixture of nations and peoples". There are at least three principal dimensions to this volatility: ethnicity, religion and isolation. The area of the Carpathian Mountains and the Tisra River was considered by many international experts as a region of enormous volatility, a former Yugoslavia awaiting a spark. The Carpathian Euroregion, states the Institute's 1994 report, "is one of the greatest friction plates in Europe, with significant potential for conflict and cooperation. Furthermore, this remote and economically underdeveloped region has been largely overlooked by central governments and by Western assistance programs".

It soon became obvious to the founders of the Carpathian Euroregion that one way to start improving the quality of life in this area was to diminish the opportunity for violence. One of their goals, therefore, became the search for ways to overcome "some of the most explosive inter-ethnic, inter-religious and historical tensions" in this region. Using the Regio Basiliensis Euroregion (discussed below) as a model, they decided that "conflict prevention is directly linked to economic development of the area" and that cross-border cooperation should focus on economic development issues in the region and its communities. That is, accelerated cross-border economic development among the neighbouring territories of Hungary, Poland, Slovakia, Romania and Ukraine might become an instrument of conflict prevention. Steps toward this goal included "the creation of open societies where diversity is regarded with tolerance. . ." and the creation of citizen associations with "bottom-up advancement of economic and political cooperation".

The Carpathian Euroregion will be considered primarily from an economic perspective. Economic cooperation and wise economic development along border areas are important for several reasons:

(1) Widespread regional unemployment persists within the areas of the five countries that form the Carpathian Euroregion. This is exacerbated by differences in economic development and in labour mobility. While workers may move great distances to find work within their own countries, they are restricted from moving freely across nearby international borders. The resulting unemployment can be a potential source of regional tensions and disputes.

(2) Regional economic cooperation can eliminate economic tensions and activate economic development in undeveloped border regions.

(3) Regional economic cooperation and development can also improve the standard of living and quality of life for individuals as well as increase public services and improve the infrastructure of the region.

(4) An analysis of the economic situation can also be an important explanation of the different social, ethnic and sectarian problems in the areas under analysis.

For these reasons, a careful examination of the Carpathian Euroregion and transboundary cooperation is particularly important to the study of the potential for ethnic and sectarian conflict in the Central Carpathian region. Lessons may also be gained regarding conflict prevention and confidence building among local and regional peoples along the national borders of Europe. One lesson comes from the Euroregion Regio Basiliensis which is an example of French-German reconciliation and cooperation started after World War II and which pushed forward the process of European integration. In Europe, more than 30 Euroregions are now in place and form a vital part of European integration and conflict resolution.

Regio Basiliensis began as a political and economic instrument to overcome historical tensions between France and German. It now covers a geographic area incorporating the centre of the Jura Mountains in Switzerland, the Black Forest of Germany, and the Vosges Mountains in France. It embraces three national regions, three different democratic systems, more than three ethnic groups. Its working commissions, Secretariat and Assembly cooperate in local economies, industry institutions, infrastructure, border crossings, education and culture. As mentioned, Regio Basiliensis served as a model for the creation of the Carpathian Euroregion.

Part Two: History and Issues of the Euroregions

The first Euroregion is thought to have started as the result of a dramatic episode along the Dutch-German border in 1958 when a young man was stricken with internal bleeding. Although there was a hopital less than a kilometer acros the German border, the man had to be driven more than 100 kilometers to the closest hospital in his own country. He died during the long ambulance ride. From this tragedy grew the concept of transboundary cooperation. Parents of young Dutch and German children agreed that the border should be opened. Their children soon attended schools across the border but close to their homes. Teachers instructed in both languages; a multi-cultural curriculum was created incorporating even the hostile recent history between the two countries. The border was opened to shopping on special days. This was followed by legal and political cooperation.

From this beginning, the Euroregion concept slowly spread across the borders of western Europe. Leaders of postwar Europe saw the idea as a way to prevent the recurrence of conflict and "to bring the spirit of cooperation, good neighborliness and mutual respect as close to individual citizens and municipalities as possible". The Euroregions also served as early agets of economic development and cooperation in Western Europe.

Transboundary cooperation between the Dutch and Belgians began in the late 1970s, initially in the Benelux areas and extended into the late 1980s to include the northern parts of the Netherlands and Belgium around the Scheld estuary. Further agreements opened up the German-Danish border. In the Alps in the early 1980s two large regional associations, the Working Community of Alpine Regions (Arge-Alp) and the Working Community of Regions of the Eastern Alps (Alpen Adria), were set up to facilitate cross-border cooperation with neighbouring regions and states not members of the European Union (that is, Switzerland, Austria, Slovenia, Croatia and Hungary). In the western Alps CONTRAO (the Working Community of Cantons and Regions in Western Alps), founded in 1984, soon comprised eight border regions in France, Italy and Switzerland. Below this level Franco-Italian and Franco-Swiss regional cooperation has also been developed in recent years (Piedmont-Savoie, the border regions around Geneva, Menton-Ventimiglia, and the Jura).

Major Changes In Europe, 1989-1995

At least five significant factors have helped bring about improvements regarding the sustainable economic and social development of the European border regions. These include:

(1) The gradual establishment of a large single European Common Market combining the European Union (EU) and the European Economic Area (EEA) and the continuing success of the integration of Europe;

(2) The peaceful revolutions which began in Poland, Czechoslovakia and Hungary in 1989 and brought freedom to Central and Eastern Europe along with the emergence of many new economic, social and political reforms;

(3) The subsequent reunification of Germany;

(4) The withdrawal of Russian troops from Central Europe; and

(5) The negotiation and the positive conclusion of the so-called European agreements between the European Community and Poland, the Czech Republic, Slovakia and Hungary. This has now pulled Poland, the Czech Republic and Hungary toward European integration. This fact alone has increased the importance of transboundary cooperation and the role of the Carpathian Euroregion in nurturing such cooperation between countries.

These developments have opened national boundaries in Europe. The eradication of the border between the two Germanys pushed the external frontier of the EC eastward to Poland and the Czech Republic. Also, new trans-boundary cooperation has been established among the newly-free countries of Central and Eastern Europe.

Given these border changes, the original European core area of Western Europe is now expanded and marked by:

• peripheral border region zones in Southern, Western, and Northern Europe;

• border region zones along the eastern external frontier of the EU;

• border region zones between Central and Eastern Europe; that is, east of Poland and Hungary.

Three Categories of Euroregions

These dramatic changes have created a variety of transfrontier regions across Europe. I shall discuss them briefly here in three categories: Category 1 are internal or external border regions of the European Union (for example, Spanish-Portuguese, Republic of Ireland-Northern Ireland) that have significant transboundary economic and administrative problems; Category 2 are more economically developed with common internal European Union borders and common rural border problems; and Category 3 are the external border regions of the European Union.

Category 1 Regions

There are six major European border regions in this category.

(1) That small region of the Spanish-Portuguese border where Portugal's provinces of El Norte, Centro, Alentejo and Algavre meet Spain's provinces of Galicia, Castilla y Leon, Extremadura and Andalusia.

(2) The border of Ireland (the northern counties) and Northern Ireland (excluding Belfast).

(3) The border of France and Italy.

(4) Corsica and Sardinia.

(5) Greece, in particular regions adjoining Bulgaria, the former Yugoslavia and Albania.

(6) The new borders of the German Lander of Mecklenburg-West Pomerania, Brandenburg and Saxony.

All these regions are under-developed, with a per capita gross national products 25% or more below the EU average and with high unemployment or hidden unemployment. In addition, both national and cross-border infrastructure are underdeveloped. Third, in most of these regions, cross-border cooperation is a recent development.

For example, cooperation between the eight Portuguese and Spanish border provinces began with the autonomous region of Galicia and El Norte. The other three pairs of regions on the Spanish-Portuguese border -- Castilla y Leon, Extremadura and Andalusia paired with El Centro, Alentejo and Algrave -- created similar working partnerships in 1992; cross-border cooperation there has taken off quickly. These regions are producing their own trans-border programmes and demanding ever more responsibility from their central governments for direct trans-border cooperation.

Along the Irish-Northern Irish border the peace agreement has been one of the main causes of cross-border cooperation after decades of tension. Previously, cross-border initiatives there were limited and emanated from private institutions with support from government agencies (e.g. Cooperation North). Regional or local initiative has generated small projects dealing with specific problems and encouraged the creation of trans-boundary associations. In addition to the Irish Border Region Association and Cooperation North there are now the North-West Region and the North-West Region and the East Border Regions. These appear to be holding despite recurring breeches in the peace accords.

Until the early 1990s trans-border cooperation between the islands of Corsica and Sardinia had barely got off the ground. It amounted to a joint tourism-promotion research project and did not produce any actual action. Since then, however, cooperation has progressed enormously with financial help from INTERREG, a European Community initiative that is specifically designed for border areas.

Between 1993 and 1995 most of the Category 1 countries started to produce their own significant cross-border development programmes. While there have been comparatively few examples of practical cross-border projects, there has been the implementation of national plans with cross-border side effects. Nonetheless, Category 1 regions have made surprising progress in cross-border cooperation. Some examples will suffice here.

Spain and Portugal have agreed on fairly large-scale trans-border plans in agriculture, small and medium-sized business, tourism, environment action, development of natural resources and trans-border cooperation. Along the Irish and Northen Irish border regions the emphasis is likewise on the development of transborder infrastructure and areas of tourism, agriculture, fisheries, forestry, the environment and regional development, in particular schemes for small and medium-sized businesses. In Corsica and Sardinia, trans-boundary cooperation includes communications, transport and marine development -- an unusual and particularly difficult area.

The general problem in these countries has been not the lack of ideas or initiatives, but political or jurisdictional problems in translating them into concrete action. While conditions have gradually improved, in the years ahead the Category 1 regions are expecting difficulties over disparities in the cost of goods and services, in wage and income levels, and in administrative structures at the regional and local level.

Future priorities for the countries in this category include the following:

- improvement of trans-boundary transport and communications infrastructure;

- diversification of activities in rural border areas;

- tackling environment problems, more particularly in the rural border areas;

- joint planning;

- promotion of cross-border networks;

- improving the employment skills pool;

• increased involvement of border regions in the design and implementation of future programmes, with the object of winning responsibility for framing and carrying through their own special joint programmes and projects (e.g. the development of legal and institutional frameworks for cross-border cooperation).

Category 2 Regions

This category encompasses countries that share common internal European Union borders and common rural border problems. These Euroregions extend from the Pyrenees to Northern Europe. Their prime distinguishing feature is that the countries are long-standing EU members whose cross-border cooperation developed very early. The countries also share a large land mass, long borders and most of the European peoples: a total area of some 1.5 million square kilometers; some 3,000 kilometers of mutual borders; a population of more than 40 million.

This category contains that first German-Dutch border region where cooperation began earliest (the EUREGIO was founded in 1958) and has been most successful. All the regions have cross-border structures and operate on the basis of transborder joint strategies and programmes. In areas adjacent to the French-German border transboundary cooperation has been going on since before 1983, through local government committees. In recent years, progress has been made in regional/local transboundary cooperation between the Saarland, Lorraine, Rhineland-Palatinate, Luxemburg and Belgium (COMREGIO). Along the French-Spainish border, in the wake of Spain's joining the EU, a Pyrenean association (El Comunidad de Trabajo de los Pirineos) was founded in 1993. Its members are the French regions of Languedoc-Roussillon, Aqitaine and Midi-Pyrenees and the Spanish autonomous regions of the Basque country, Navarre, Aragon and Catalonia. The association has permanent working bodies and an action programme.

Transboundary cooperation between the countries with internal EU borders may be divided into six main categories:

(1) economic cooperation (including construction and technology);

(2) transport and infrastructure;

(3) training and employment;

(4) tourism enhancement and cultural heritage;

(5) environment and agriculture;

(6) research and programme management.

The main priorities for these regions have been economic cooperation and tourism, followed by employment and the environment. Interest in the development of small businesses, perhaps in conjuction with the development of tourism, has also been evident in these regions. Transport and infrastructure have not yet featured prominently in trans-border cooperation.

The governmental structures along these mutual borders vary widely with parallel discrepancies in efficiency. For example, along the German-Danish border the Danish amtskommunen (counties) enjoy a considerable degree of autonomy while the various entities on the German side have not yet combined into a regional association and are not yet the best partners for trans-border cooperation.

By comparison, regions on the Belgian-Dutch border are fast developing cross-border structures with appropriate and equal responsibilities. Regions on the German-Dutch border have developed furthest, with solid foundations laid down by international agreement, well-defined structures, and some integration already underway. Powers to carry through programmes and projects, in particular with EU grant aid, have been vested in the regional level to a very marked degree.

Despite the seemingly smooth progress of Common Market expansion and Europeanization, common border problems among these countries persist. In addition to economic structure and the labour market, it is possible to identify a range of border- related problems affecting internal-border regions. These include:

• insufficiently developed cross-border cooperation between small and medium-sized businesses;

• growing numbers of cross-border commuters, with the attendant problems of tax allocations to the country of employment but without social benefits to the commuter;

• lack of employment to replace lost border- related jobs and activities (e.g. customs work) which completion of the EC internal market has eliminated;

• lack of trunk communications infrastructure in some border regions (such as the Alps or Pyrenees) to overcome the problem of remoteness and to supply missing cross-border links;

• cross-border environmental problems resulting from traditional industrial and agricultural activity in densely-populated border regions;

• cross-border approaches to environmental protection, nature conservation and heritage protection;

• insufficient cross-border blending of tourist, agricultural, environmental and planning activity;

Some of these problems are being addressed. The Euroregions along these internal borders see their priorites as:

• creation of economic opportunities;

• improved cross-border cooperation in small and medium-sized businesses;

• tackling structural employment problems (hidden unemployment, decades of reliance on a single activity, disappearance of some 62,000 border-related jobs).

Category 3 Regions

The third category contains regions along the external borders of Europe. Cooperation across the European Union's external borders is particularly uneven. The problems are many and highly complex. In addition, many of the regions along the external EU borders are having to contend with rapid change in the neighbouring border regions, even (in the case of Greece) armed conflict.

These regions along the external borders of Europe fall into three groups:

(1) Border regions sharing a common boundary with European Free Trade Association (EFTA) countries which are at some stage of joining the European Union (e.g., Austria, Sweden or Finland) or adjacent to Switzerland or to Norway which have rejected membership in the Union;

(2) Border regions adjacent to European Union countries which hope to join the EU by the end of the century (e.g. Slovakia, Hungary, Poland and the Czech Republic; Slovakia and Hungary will both have a border with the EU if Austria becomes a member);

(3) Border regions of other less-developed countries (e.g. the Baltic republics or Albania, or countries which do not yet qualify for EU membership although geographically close to EU countries, for example, Morocco).

Each of these three groupings of external border regions have distinctive characteristics. The first grouping, which borders on France (Switzerland), Italy (Switzerland and Austria), Germany (Austria) and Denmark (Sweden, Norway and Finland, the Danish territory in the latter case being Bornholm), are marked by the following characteristics of cross-border cooperation:

• The economic development of the regions is above or around the EU average.

• Cooperation with other border regions has unusual features (Switzerland and Austria, for example, are international transit centres).

• The regions have been developing programmes of cross-border cooperation since the early 1980s. Most are bilateral agreements and they include associations such as the Constance Council (an institution created for cooperation at the Euroregion council level), the Working Community of Alpine Regions, the Working Community of Regions of the Eastern Alps, or the CONTRAO.

In recent years transboundary cooperation with regions of EFTA countries has primarily been across five borders: the French-Swiss, the Italian-Swiss, the German-Austrian, the Italian-Austrian and the Italian-Slovenian. The focus is on border infrastructures (roads, customs buildings, restaurants, etc.), the environment, tourism, cooperation between small or medium-sized enterprises, and cultural relations. Switzerland's main difficulties with its EU borders is that once other EFTA countries have joined will be transit traffic and cross-border commuting.

With regard to the second group above, transfrontier cooperation across external EU borders with Central and Eastern European countries has the following combination of distinguishing features:

• Previously, there was very little cooperation for political reasons (e.g. in the case of border regions in the former GDR or Greece);

• Current international tensions are high and preclude cross-border cooperation (e.g. across Greece's external border with Macedonia);

• There is for the time being a distinct preference for cooperation through informal contacts and arrangements, with the national authorities retaining and playing the main role;

• Despite their various geographical, economic and industrial characteristics, all these border regions suffer from market economic disparities (industrial and commercial dissimilarities), lack of infrastructure, and environmental problems;

The border regions adjacent to the Central and Eastern European countries suffer from lack of infrastructure, environmental problems, unemployment, problems of economic cooperation, and political, psychological and socio-cultural issues. Further, there are difficulties in drawing up cross-border development programmes, in putting partnerships and their subsidiaries into proper effect. A more complicating issue is combining EU resources (which tend to involve integrated programmes over a number of years) with Central and Eastern European resources (where the programmes are often one year programmes and sector specific).

Despite these obstacles, transfrontier cooperation in the region is slowly getting underway. Cooperation between the Danish border regions and the Baltic States, across the border between Italy and Slovenia, and between the German border regions with Poland and the Czech Republic, is becoming more effective. This is due, in part, to a willingness in these regions to address and focus on a long list of issues. These include infrastructure (e.g. improved transport and communications), opening new border crossings, and the development of cross-border programmes. Perhaps most important among these are the cross-border (and even pan-European) associations and the setting up development finance by drawing on a combination of EU resources and aid programmes (such as INTERREG and PHARE, a programme created and funded by the EC to support reforms and changes in Central Europe). An excellent example of such cooperation is, of course, the Carpathian Euroregion Association and its common initiative embracing the border regions of Poland, Slovakia, Ukraine and Hungary.

Two Common Euroregion Problems

Despite some successes, significant problems remain concerning the Euroregions. Two of them also concern the Carpathian Euroregion.

First, major obstacles and problems to Euroregion success are being created by national governments concerned that the Euroregions are too distant from their central authority and, by definition, seeking to diminish and undermine national power by undertaking transboundary cooperation with neighbouring states. This, as we shall see, is a significant obstacle to the success of the Carpathian Euroregion.

The Euroregions increased their complaints in the mid-1990s to the European Conference of Border Regions alleging inadequate implementation of its legal instruments, in particular the Outline Convention, by national governments. The particular shortcomings highlighted include:

(1) There is no express statutory recognition of the right of border communities or authorities to independent transboundary cooperation -- including the right to conclude transboundary agreements under the same conditions as within a domestic framework.

(2) No legal framework for the establishment and protection of transboundary bodies is provided, especially for public-law associations of border communities or authorities.

(3) The legal veracity of the decisions of these bodies is not specified, particularly if they go beyond what is purely private law and take on a public-law character.

These problems have been, and continue to be, addressed. The Fifth European Conference of Border Regions, held in Rovaniemi, Finland, in June 1991, drafted a Protocol to the Outline Convention on Transfrontier Cooperation . This protocol was designed to give the institutions of transboundary cooperation legal standing and to give domestic validity to their resolutions and decisions. This additional protocol was drafted, discussed and revised in detail in the various organs of the Council of Europe.

The second problem common among Euroregions and particularly the Carpathian Euroregion concerns the fact that border areas are often isolated from decision-making centres and centres of economic activity. Thus, they may suffer from rather unusual problems particular to their region:

• lack of good transport infrastructure;

• a relatively large excess of births over deaths (especially in Central and Eastern Europe);

• a fairly marked reliance on a single industry, an undeveloped service sector, and inadequately developed technological infrastructure -- all marking border regions as often troubled by a lack of alternative quality employment, at a disadvantage in competing for employment in the adjacent country, and handicapped by the lack of transboundary transport to a cross-border employment market.

These two problems are different in focus, impact and state response. The first -- central government's concern about distant Euroregion autonomy -- will require the political will to act at the national level. Slovakia is at this time the best example of such non-cooperating, capital-centric behaviour. The second problem -- the indigenous isolation and low economic activity characteristic of the Central European Euroregions -- could be resolved by regional economic cooperation. Protocols and Conventions probably will not generate changes in political will or economic development. Bold, creative, regional cooperation such as designed and developed the Regio Basiliensis in France, Germany and Switzerland offer promise in the Carpathians. Policy makers must search for pressure points where national governments realise that they have more to gain than to lose by supporting regional cooperation.

One excellent pressure point is admission to the European Community. Poland, the Czech Republic, and Hungary already see such cooperation as preliminary to the coveted prize of EU admission. Interestingly, even Slovakia has recognized this importance: In January 1995, the Slovakian government issued a Programme Statement arguing that one of the principal goals of Slovak foreign policy is to achieve integration into western economic and security organizations (i.e., the EU and NATO). One month later, however, Slovakia withdrew its full suport of the Carpathian Euroregion, largely because of concerns in Bratislava about controling the local governments. But, as Slovakia's leaders know, full membership into the EU (and NATO) will come only to those Central and Eastern European countries that demonstrate an ability to resolve disputes with neighbouring states, accept and protect minorities within their borders and a willingness to diminish pockets of economic depression and tension along their mutual international boundaries. Slovakian foreign policy will not achieve its stated goal of EU admission without transboundary cooperation that directly addresses the two major problems detailed above.

One principal reason for cooperation in the Carpathian Euroregion by Poland, the Czech Republic and Hungary is that such cooperation meets and supports EU admission criteria. Also, these are "front-tier states" at the head of the queue for such admission. Ukraine is not far behind them. This willingness to demonstrate transboundary cooperation to gain EU admission, however, may also partly explain Romania's current mild commitment to the Carpathian Euroregion. Romania is not yet in the queue. Slovakia remains an enigma.

Part Three: The Carpathian Euroregion

Over the centuries, the Carpathians were the cross-roads for commercial routes between Europe and Asia and the scene of bloody wars. But following World War II, the Carpathians were sealed off by the expanding Soviet Union which imposed tight borders across Central and Eastern Europe. For more than four decades "the borders of peace between the fraternal nations" denied any contacts between people from different countries. Border neighbours viewed each other with suspicion and did not trust visitors from neighbouring countries.

Following the "velvet revolutions" across the region in 1989-1990, this slowly changed. Local people sought to create a Carpathian Euroregion "similar to those in the West, in spite of the fact that some political forces in these countries and in Romania bitterly opposed any cooperation across borders on the regional level". Preparatory meetings were started in 1992 with the goal of creating "a political, legal and organizational framework for the interregional, transfrontier cooperation". These meetings eventually led to the Hungarian town of Debrecen, where on 14 February 1993 the Polish, Slovakian, Ukrainian and Hungarian foreign ministers, supported by the Institute for EastWest Studies, signed a declaration supporting the establishment of the Carpathian Euroregion . Hopes were very high. For one thing, the Carpathian Euroregion was the first Euroregion in Central and Eastern Europe. It was, as mentioned, also the single largest Euroregion in Europe and now covers 104,989 km2, with population of about 10 million people.

Optimism filled the air at the ceremonies in Hungary in 1993. Anthony Zhlenko, former foreign minister of Ukraine, said with satisfaction: "We are entering the process of European integration." Dr. Krzysztof Skubiszewski, the Polish minister of foreign affairs, added: "This initiative opens new opportunities for peace and cooperation in the area." These hopes were matched by the Council of Europe, which supported the Carpathian initiative, and the Council's Secretary General, Catherine Lalumiere, who said in Debrecen: ''We were late on Balkans, but we are in time here."

Such optimism has now been replaced by caution, and for good reasons. The Carpathian area is a mosaic of nationalities, cultures and religions; it is, as stated previously, "a microcosm of the New Europe, containing a potential volatile mixture of nations and religions", a "friction plate" with significant potential for conflict as well as cooperation. There are at least three major indigenous dimensions to this volatility.

(1) Ethnicity.

Ukranians and Hungarians live in Slovakia, Poles in Ukraine, Ukranians in Hungary, Hungarians in Romania, with Gypsies scattered throughout the area. According to estimates, two to three million Poles live in Ukraine and a large Hungarian minority lives in Romania and Slovakia.

(2) Religion.

The Roman Catholic, Greek Catholic and Orthodox religions, with small scattering of Jewish and Moslim sects, are all found in the Carpathian region.

(3) Isolation.

The Euroregion is geographically distant from the five capitals and is considered an underdeveloped corner in each of the respective countries. It is thus seen from the capitals as an unstable, poor and isolated peripheral region to be viewed with suspicion and mistrust.

These characteristics create a paradox; they set the region aside from politicians and policy-makers in the capitals, yet give the people of the Euroregion a sense of unity; a we-vs.-they attitude. For despite its internal differences the Carpathian Euroregion also enjoys some unifying characteristics. It has a shared geography, climate and history: the entire region, with the exception of the northern portion of the Polish section, was part of the Austro-Hungarian empire and later the Hungarian Monarchy. There is also the commonality of similar languages. And -- ironically, given the economic profiles presented below -- there is a sense of shared experience gained from struggling against the region's poverty, underdeveloped character and treatment as a peripheral entity. Even the current efforts to make the transition from a centrally-planned economy to post-communist market economy may have a unifying impact on the region, as people in the Euroregion bond together to create a common economic struggle.

Some Problems

Despite the economic potential and promise of trans-frontier cooperation, the five countries sharing the Carpathian Euroregion have since 1993 disagreed on the degree of particiation in the Euroregion and the transboundary role of the Euroregion. As in the case with other Euroregions, the central capitals view these agencies of trans-boundary cooperation with great suspicion. Leaders in at least two capitals have acted on their misgivings about the role and power of the distant Euroregion. The Slovakian authorities approached the Euroregion idea with extreme caution. The eight Slovakian districts (Bardejov, Svidnik, Humenne, Michalovce, Trebisov, Kosice, Vranov and Presov) joined the Euroregion only as associate members.

Slovakian politicians have also forbidden the Euroregion to set up headquarters away from the capital -- for example, in Kosice, within the Carpathian region, rather than in Bratislava, more than 300 kilometers at the other end of the country.

When districts within Romania were invited to join the Carpathian Euroregion that country's leaders rejected the offer, despite the fact that local communities wanted to participate. Romania is now an observer member. It was initially given full-member status which was reduced after protests from the central government in Bucharest. "As the level of suspicion and hostility within the area subsides," states an Institute of EastWest Studies report, "it is hoped that Slovakia and Romania soon will become full members as well".

Part Four: Economic Issues in the Countries of the Carpathian Euroregion

When the Communist governments fell in Eastern Europe in 1989 the new governments struggled to embrace capitalism. It was immediately clear that the key to renewed growth would be the transfer of capital from the state to private agents and the transfer of economic planning from bureaucracies to individuals. Questions arose quickly about the speed and the means by which the private sector could be built. Privatisation of the state enterprises was correctly judged to be a complex and lengthy affair. Many observers doubted that the spirit of entrepreneurship needed to spark large-scale private entry to the market economy could have survived 40 years of Communist suppression. How quickly could individuals who had grown up in socialist economies adopt the values and behaviours of capitalism and amass the capital needed to invest in private businesses? Many asserted that it would take a generation.

The Carpathian Euroregion was founded on the premise that economic development might overcome the potential for conflict; that cooperation could be fostered. Overlooked by western assistance programmes, isolated from its capitals and the investments that they attract, containing the volatile mixtures of multiple religions and ethnicity, the Carpathian Euroregion needs to attract capital. The Statute of the Inter-Regional Association-Carpathian Euroregion states that the region shall "support local activities aimed in promoting transfrontier cooperation . . . .'' which, according to the minutes of the Council of the Carpathian Euroregion, "improve the quality of life of the people living on the territory of the Euroregion." The mandate of NGOs who contribute to the Carpathian Euroregion, therefore, is to enhance the quality of life of its residents through transfrontier cooperation. And that cooperation will be based on economic development.

What are the economic profiles of the countries of the Euroregion? How might conditions be altered to enhance economic development in the Carpathian region? Let's look now at the four major countries: Hungary, Poland, Sloavkia, Ukraine.

Hungary

The Private Sector

The democratically-elected Hungarian government of 1990 launched reforms guided by a clear and unambiguous vision of a predominantly private market economy integrated with Western Europe. Private ownership, new monetary laws and regulations, tax increases to reduce the budget deficit, a tight monetary policy, were among the many changes that stimulated the Hungarian economy. Now Hungary has 300,000 private sole proprietorships and several thousand private limited liability companies. The share of workers employed in the private sector in Hungary is estimated on 20 percent.

But sweeping economic reform did not reach to the borderlands of Hungary. Today, sixty percent of business firms are located in Hungary's cities, 25 percent in towns and 15 percent in villages. Half of them are clustered in Budapest and its suburbs, with the rest evenly spread among 42 communities throughout the country. Typically, firms in Budapest produce for national and export markets and companies in towns and villages for local, niche markets. Those firms are small. The average full-time work force is about 44 persons. Proximity to the capital, Budapest, carries benefits of access to loans, investments and markets. As one entrepreneur puts it, "Who sits by the fire, gets all the heat. "

Foreign Investments

Since Hungary opened its doors to foreign investment in 1988, the country has enjoyed a level of such investments unmatched by any other Central and Eastern European (CEE) country. This was initially due to Hungary's original foreign investment law, Act XXIV of 1988, which was the most liberal investment law in region at that time. The law has been modified periodically since then, but it still retains basic features that are attractive to foreign investors. The law allows foreign individuals and entities to own up to 100% of Hungarian investments, including real property. This guarantee of investment security is unique among developing nations and makes Hungary an attractive investment opportunity for foreign capital.

Other incentives to economic growth include allowing foreign investors to repatriate their forint profits in the currency of the original investment (at the official exchange rate) and generous tax incentives to foreign investors that encourages importing capital equipment. A liberal arbitration and dispute resolution instrument for investors., under the International Convention for Settlement of Investment Disputes, guarantees a forum in which private citizens of signatory states may arbitrate against governments of other signatory states. The Hungarian foreign investment regime gives private investors caught in a dispute the right to choose the mode and venue for purposes of dispute resolution. Further, given the relative lack of commercial experience and precedent in the Hungarian legal system, joint venture agreements often provide for arbitration to resolve disputes that may arise. At present, approximately half of all disputes are arbitrated through the Hungarian Chamber of Commerce and about half in other international chambers.

Unemployment

Despite incentives and signs of economic growth, the most critical consequence of the economic transformation in Central and Eastern Europe is the appearance and subsequent growth of unemployment. In the middle of 1993, the number of the unemployed in Hungary was above 500,000 and reached a rate 12%. It is important to emphasize the unusual regional character of unemployment. When we combine information about the formation of the companies as an indicator of economic renewal and unemployment as an indicator of the most serious crisis, we see that the regional characteristics mentioned above are confirmed. That is, statistics confirm a core-periphery dualism and split.

The Carpathian Euroregion in Hungary

As Table 4.1 (below) shows, Hungary is actually two countries in terms of its economy. Manpower, goods, and information markets exist primarily in and around the capital city of Budapest. But market institutions are undeveloped in the rest of the country (even in the six next largest cities of Hungary). Consequently, the "other Hungary" has low investment and high unemployment. This underscores the importance of the Carpathian Euroregion mandate for addressing economic conditions in this region.

Most recent economic statistics show that almost half of the most dynamic companies are located in Budapest with one tenth of them be found in the industrial region of the capital (Pest county). The dominance of Budapest comes from several different factors. First, the city has always pioneered types of social innovation in Hungary. In adition, it offers the largest and most affluent consumer market in the country and has almost monopolised the control of the economic and political information necessary for entering into business. Finally, partly because of the size of the city, control by the political leadership over Budapest's economy has been less direct than in any other area of the country, thus allowing more economic incentives and freedom.

Simultaneously, the spread of private companies is imitating the classical model of expansive diffusion, and the number of enterprises has increased in the western counties significantly. According to Hungarian government data, the main directions of the expansion are along the Vienna-Gyor-Budapest and the Trieste-Lake Balaton-Budapest axis. The central and the southern part of the country is less affected by this change.

Table 4.1

Share of Economic Organisations / Individual Enterprises, by counties

County	**Individual entrepreneurs**
Budapest	22.7

Baranya	5.2
Bacs-Kiskun	5.4
Bekes	3.9
Borsod-Abauj-Zemplen	5.2
Csongrad	5.2
Fejer	4.6
Gyor-Moson-Sopron	4.5
Hajdu-Bihar	4.6
Heves	2.9
Jasz-Nagykun-Szolnok	3.7
Komarom-Esztergom	3.2
Nograd	1.9
Pest	10.3
Somogy	6.7
Szabolcs-Szatmar-Bereg	4.4
Tolna	0.9
Vas	0.8
Veszprem	2.1
Zala	1.8
Total	100.00

Source: *Yearbook of Economic Statistics*, [Main Statistic Office, Budapest], 1992
Carpathian Euroregion in italics.

** Italics did not transfer across**

As Table 4.1 makes clear, in the north-eastern peripheral regions of Hungary which are the members of Carpathian Euroregion Association (in italics), the density of companies is comparatively low. In that case, transboundary economic cooperation among the countries involved in the Carpathian Euroregion could attract economic development. This is because By pooling their resources along the border the Euroregion countries may attract investment that normally heads toward the capital city areas. They could also offer lower-cost labour, local tax incentives, access to a large and pooled market, and transboundary movement of good. The numerous small and medium-sized towns of this region make it an excellent target for foreign joint-ventures.

Table 4.1 indicates the regional distribution to capital in Hungary. As stated, approximately two-thirds of foreign capital is invested in companies located in Budapest and Pest county. If we compare the size of the invested foreign capital with the total number of the employees, the companies with the highest invested foreign capital and largest number of employees are located in the counties of north-western Hungary in addition to Budapest and its environs.

Vas county enjoys the highest investment levels: US$1800 capital investment per employee of the country. Specific capital investment is also high in the central and northern counties. But once again the south-eastern zones of the country are at a disadvantage. For example, in the counties of Csongrad, Bekes and Tolna the foreign capital is less than US$250 per employee.

By comparison, in the Carpathian Euroregion the level of invested capital is much lower than in those counties nearer the capital. In the counties of Szabolcs-Szatmar-Bereg and Hajdu-Bihar the average foreign capital investment is about US$250-US$500 per employee. In counties of Borsod-Abuj-Zemplen and Szolnok the foreign investment is about US$500-US$1000 per employee. The highest amount of foreign capital investment in the Carpathian area is found in the province of Heves, with about US$1000-US$1500 per employee.

These data show unambiguously the ability of the central and western parts of the country to attract foreign capital. This can be illustrated by the fact that each of the 3 multinational companies currently in Hungary selected those areas in which to locate: Opel in Szentgotthard (Vas county), Ford in Szekesferehervar (Fejer county), and Suzuki in Esztergom (Komarom-Esztergom county). None is in the Carpathian region.

The sectoral structure of foreign investment similarly favors one part of the Hungarian economy over another. This is seen by the fact that 57% of the invested capital went into the industry; investments of high value have also appeared in the financial institutions (banking, insurance) sector as well. At the same time, with respect to their number, joint ventures in trading, services and the tourist industry predominate and have been launched with a compulsory prescribed minimal initial stock.

Unemployment

The conditions of unemployment and investment follow the same patterns. They are inversely proportional. In most parts of the country, high unemployment is accompanied by a low low investment and formation of companies. This is characteristic of many parts of eastern Hungary (the Carpathian Euroregion area). For example, the areas and their unemployment rates are as follows: Borsod-Abuj-Zemplen (14%), Szabolcs- Szatmar-Bereg (13%), Hajdu-Bihar (12%). The regions in the central part of Hungary are somewhat better off: for example, Heves with an unemployment rate of about 8% and Szolnok with about 9%. It is important to mention that the areas situated around the towns have a much lower rate of unemployment. In the most developed areas of Hungary, in Budapest and Pest county, the rate of unemployment is very low, about 6%. Districts in the neighbourhood of some cities -- for example, Lenti, Sarvar in the west -- and the south-eastern districts of Pest county are characterised by low unemployment rates and the presence of few companies at the same time. These are, in effect, "bedroom" communities: companies prefer the neighbouring cities and create job opportunities there for the inhabitants of the wider region.

Recommendations

Conditions in the Hungarian economy, matched with the willingness of the Hungarian government to adapt to transformation, create an atmosphere conducive to change.

• First, and most important, the market economy could be expanded and developed on the regional level. Because of the "two Hungarys", the country needs a regional policy which is based on the drawing force of a diversified market and not on the unified model of extensive growth that pulls capital and labour into the Budapest area. This policy should help the organisation of regional and local markets and use the various implements of "enterprise intensification."

One model of national economy diversification may be based on developing small- and medium-sized companies and changing technology and production structures aimed at the private sector of the economy. This encourages the spreading of capital and labour around a country rather than concentrating it in one economic centre. This process, however, requires an economic policy advantageous to entrepreneurs, a decentralised power structure, and development conceptions initiated regionally.

• Second, with capital concentrating around Budapest and its surrounding areas bringing with it high employment and stability, there is a disincentive to share this good fortune with outlying regions. Therefore, the Carpathian Euroregion, with his comparatively high levels of unemployment and low capital attraction, is viewed not as a positive entity but as an economic competitor. Growth there is seen as strengthening ethnic minorities and political outsiders. This, coupled with the political animosity toward the Carpathian Euroregion shown in the capitals of the countries that share it, creates a two-pronged problem for the region: It cannot easily attract investment and employment away from the central capital, and it is seen as a political maverick advocating trans-frontier cooperation and cross-boundary policies that politicians in Budapest (a well as in Bratislava, Warsaw and Kiev) see as their domain.

There are three possible approaches to a mutually beneficial solution.

(1) Special economic zones were proposed during a conference arranged for Hungarian and foreign investors in Zahony (Szabolcs-Szatmar-Bereg province) concerning the area of the Carpathian Euroregion. A Special Economic Zone in this region would have several immediate benefits:

• It would take advantage of the geographical location of the Carpathian Euroregion along the Hungarian-Ukrainian-Slovakian border with only 75 kilometers from Poland to Romania

• It would place the region in the path of a rapidly developing transport of passengers and goods between East- and South-Europe at Zahony by both rail and road;

• It would position Hungary and the region to join the European river system by the River Tisza;

• There is skilled labour available.

(2) For these reasons, the central government officials could be encouraged to become more directly involved in the Carpathian Euroregion development. Although it was the Communist concept to keep power centered in the capitals, Hungarians now understand the value of favoring national (not sub-national) development. One significant value is economic, social and political stability

(3) National development creates stability and is therefore complementary since it would also deal with the concern for "ethnic minorities" and "political outsiders". Regional development promises both economic development and political stability. How? By breaking down inequities of unemployment and investment and distributing investments wider. The perquisites of civil society -- health care, better schools, participatory democracy -- follow such wider distribution of economic development. And, as history teaches in the western European Euroregions, political linkages of the periphery to the center bring with them political and social stabilities, if not loyalties. People joined in economic union are unlikely to break that union.

Slovakia

The Private Sector

Following the "velvet divorce" from the Czech Republic in 1991, the Slovak Republic made initial progress in privatising its economy. More than 9,300 small shops auctioned off or returned to their original owners between 1992-1994 -- virtually the entire stock. Thanks in large part to this, the private sector grew quickly and now accounts for about 30% of output and 40% of employment. As Table 4.2 shows, the number of private sector firms jumped from 9,436 in 1991 to almost 24,000 in just two years. Their share of industrial output also expanded rapidly, from 15% in 1991 to 27% in 1993. The explosive growth of private firms and the concomitant decline in public sector employment have largely come from the mass privatisation program. Today, far fewer sectors are reserved for the state, prices have been liberalised, barriers to foreign trade have been lowered, and there is little fear of direct expropriation. By 1995,Slovakia's growth rate was close to the Czech level and inflation lower than Poland or Hungary.

Table 4.2
Growth of the Private Sector, 1991-1993
(in percent)

	December 1991		**December 1992**		**December 1993**	
	Public	Private	Public	Private	Public	Private
Enterprises	2392	9436	2540	18485	2388	23972

Share of output	85	15	78	22	73	27
Employment	75	25	70	30	68	32

Source: Slovak Statistical Office, 1994

Problems

There are still problems. Poor infrastructure and cumbersome regulatory framework are major obstacles to private sector development. Registering a business in Slovakia remains complex . With the courts deluged by more than 250,000 commercial cases, debit collection is a major problem.

Worse, Vladimir Meciar, Slovakia's prime minister, has shown a unique ability to move in the opposite direction from European integration and admission to the EU. In 1995, he seized control of Slovak broadcasting, tried to throw the opposition party out of parliament and sought to bully the country's elected president, Michal Kovac, out of office. This raised serious doubts about the country's democratic credentials and its ability and willingness to create a climate that would attract foreign investment.

Outsiders frequently lament what they call a lack of consensus among government leaders and state-company directors. Joint venture negotiations can drag on for months as proposals are shuttled from ministry to ministry. The growing national unrest among Slovakia's 570,000 ethnic Hungarians, most of whom live along the country's southern border, causes concern. The minority has begun to push hard in recent months for a limited autonomy, raising the spectre that Slovakia itself could someday split along ethnic lines.

Foreign Investments

Emerging from its stormy first years of independence, Slovakia was by 1996 at an economic (as well as political) cross- roads. Its sputtering economy was as likely to crumble as to take off. The political forecast was murky and foreign investments remained slim compared to the Czech side of the former Czechoslovakia. The country's location -- wedged among Austria, Hungary, Poland, the Czech Republic and Ukraine -- is seen as both an advantage and a cause for uneasiness. And while Slovakia boasts hundreds of promising companies, investors with experience complain of an apparent reluctance among government and industry officials to follow through with privatisation plans.

Foreign investments in Slovakia totalled US $230 million at the end of 1992. This figures are strikingly low, in the range of US $ 3,500 to US $35,000, considering Slovakia's proximity to Western Europe. The biggest investors are Austrian (US $ 73 million -- about 30% of total invested capital), German (US $ 55 million -- about 18 % of total invested capital) and American (US $ 45 million -- about 14% of total invested capital).

Taxes on businesses are numerous and burdensome. Basic tax rates include a 50% payroll tax for social insurance programs (38% from employers and 12% from employees), 25% (6% for some services) for the VAT, and 45% for the corporate income tax. Often taxes are levied regardless of whether the supplier has been paid, a requirement made more onerous by the frequency with which payments are delayed. Foreign exchange restrictions in force at various times impose other taxes. The main results, not surprisingly, have been an increase in foreign refusals to ship without prepayments, and higher profits for cross-border banking intermediaries, most of them based in nearby Vienna, Austria. The country's average monthly industrial wage is about US$167, compared with US$204 for Hungary, US$173 for Poland and US$195 for the Czech Republic.

Regional Characteristics of Foreign Capital

To restructure the economic base, Slovakia needs some US$20 billion through the year 2000, with more than half coming from foreign sources, according to estimates by the Ministry of Economy. But convincing lenders to provide a sum that size will require a demonstration of commitment to political stability, democratization and economic free-markets, not to mention luck. Domestic credit hardly exists, and foreign inputs so far amount to hardly a sliver of what the country says it needs within the next seven years. Yet for some, the demand itself spells opportunity. Shareholders do not have money for new investments and neither do the local banks. This creates an environment where investors can come in and create very favourable arrangements.

However, Bratislava has gobbled up nearly 60% of Slovakia's total foreign investment. Officials hope to spread the wealth more evenly by offering tax breaks and other incentives to investors putting their money outside the capital. But growth of the private sector and foreign investments hav not spread much beyond the capital; as Tables 4.3, 4.4 and 4.5 make clear, they have not had much if any impact on the carpathian Euroregion. Table 4.3 shows that foreign investment in the Carpathian region of Slovakia is less than 10% of the national level, not unlike the case in Hungary. Bratislava, like Budapest, attracts the lion's share: more than 50% of foreign investment flows into the capital against 9.5% across the Carpathian Euroregion.

Unemployment

The most difficult consequence of the economic transformation from a centrally-planned to free market economy is the appearance and growth of unemployment. For more than 45 years, unemployment or under-employment were hidden and an image of full employment maintained as state policy. Today, unemployment in Central and Eastern Europe (and elsewhere) is a fact of life. In Slovakia, for example, in the first half of 1994 the number of unemployed was above 300,000, reaching a rate 14.5 % of the population.

Table 4.3

Foreign Investment in the Carpathian Euroregion

Region	Share of foreign investments (%)
Bardejov	0.2
Humenne	0.4

Kosice-city	5.5
Kosice-Region	0.3
Michalovce	0.6
Presov	1.6
Svidnik	0.1
Trebisov	0.6
Vranov	0.2
Total for Carpathian Region	9.5
Bratislava-city	50.8

Source: Slovak Statistical Office

Table 4.4

Unemployment Rate in Slovakia

Region	Number of persons	%
Banska Bystrica	9 779	10.3
Bardejov	7 197	20.0
Bratislava-city	12 838	4.3
Bratislava-region	6 098	12.2
Cadca	10 103	21.4
Dolny Kubin	9 271	17.2
Dunajska Streda	10 007	20.3
Galanta	11 592	19.5
Humenne	8 590	16.6
Komarno	10 571	22.2
Kosice-city	14 582	10.2
Kosice-region	7 345	23.7
Levice	10 313	16.4
Liptovsky Mikulas	6 773	10.7

Lucenec	9 257	20.5
Martin	6 276	11.2
Michalovce	11 984	22.8
Nitra	15 797	16.1
Nove Zamky	12 349	17.9
Poprad	12 271	16.1
Povazska Bystrica	10 556	13.1
Presov	15 541	17.0
Prievidza	9 359	14.3
Rimavska Sobota	12 019	27.1
Roznava	10 278	24.7
Senica	8 200	12.9
Spisska Nova Ves	14 575	23.6
Stara Lubovna	2 829	15.2
Svidnik	4 479	20.3
Toplocany	11 408	16.1
Trebisov	11 688	22.3
Trencin	6 059	7.2
Trnava	13 912	12.2
Velky Krtis	4 370	21.8
Vranov	6 850	23.8
Zvolen	7 279	23.8
Ziar	5 295	12.1
Zilina	12 748	13.2
Slovakia Total	370,438	14.5

Source: Slovak Statistical Office
Carpathian Euroregion indicated by italics.

Jack: italics were lost in transfer

Comparing Tables 4.3 and 4.4, one sees that in parts of the country, including the Carpathian Euroregion, high unemployment is accompanied by a low level of foreign investments and the formation of companies. Table 4.3 shows that foreign investments in the Carpathian

Euroregion are only 10% of Slovakia's total investment. Table 4.4, with the Carpathian Euroregion areas in italics, indicate the accompanying levels of unemployment. The Carpathians are not alone, of course: the southern part of Slovakia is also in an extremely difficult position. Political instability is the main cause for concern in this area. The unemployment rate in that part of Slovakia is very high, especially when compared to similar areas of Hungary or Poland. In Rimavska Sobota, for example, the unemployment rate increased in the first half of 1994 to above 27%. In Roznava and Kosice Region it is almost 24%.

Unemployment rates vary significantly with educational attainment. They are highest for both men and women with the least amount of education no formal schooling) and fall in inverse proportion to the amount of education a man or woman attains. Thus, unemployment rates are strikingly low for university graduates, particularly for men.

The economic situation is very bad in the area of the Carpathian Euroregion due largely to the low levels of foreign investments and development of the local private sector. The other reasons are deeply rooted in rural infrastructure of the area and the concentration of investment and enterprises in the developed areas around Bratislava. The three tables show this clearly. As discussed, Table 4.3 indicates that foreign investment in the Carpathian Euroregion is among the lowest in Slovakia. While the city of Bratislava gets more than 50% of all of Slovakia's foreign investment, the entire Carpathian Euroregion receives only 9.5%. Not surprising, this has ramifications on the region's unemployment rate: In all the areas involved in the Carpathian Euroregion the unemployment rate is above 20% except in Humenne (16%), Presov (17%) and Kosice-city (10%). As we see in Table 4.4, Kosice region has an unemployment rate of more than 23%. But Bratislava has an unemployment rate of just 4.3% (the Bratislava region, however, jumps to 12.2%). Table 4.5 indicates that, as a result of poor investment, the Carpathian Euroregion has a low level of economic organizations and individual enterprises. For example, only 1.5% in Humenne and only 1.6% in the Kosice region. Once again, by comparison the capital city of Bratislava has almost 15% and its region twice as many enterprises as Humenne and Kosice region -- although Kosice city has cornered 6.1% of Slovakia's private enterprises.

Table 4.5

Share of Individual Economic Enterprises by Region

Region	**Individual Enterprises (%)**
Banska Bystrica	3.6
Bardejov	1.0
Bratislava-city	14.9
Bratislava-region	3.6
Cadca	2.1

Dolny Kubin	1.7
Dunajska Streda	2.9
Galanta	2.7
Humenne	1.5
Komarno	2.2
Kosice-city	6.1
Kosice-region	1.3
Levice	2.4
Liptovsky Mikulas	2.0
Lucenec	1.2
Martin	1.5
Michalovce	1.6
Nitra	4.8
Nove Zamky	2.6
Poprad	2.5
Povazska Bystrica	2.4
Presov	3.0
Prievidza	1.5
Rimavska Sobota	1.3
Roznava	1.1
Senica	3.5
Spisska Nova Ves	1.6
Stara Lubovna	1.0
Svidnik	0.5
Toplocany	2.3
Trebisov	1.4
Trencin	2.8
Trnava	4.6
Velky Krtis	0.5
Vranov	0.7

Zvolen	2.2
Ziar	1.5
Zilina	4.0
Slovakia Total	100.0

Source: Slovak Statistical Office
Carpathian Euroregion in italics

Jack: italics did not transfer across

Recommendations

The persistence of large regional differences in unemployment in Slovakia reflects skewed foreign investment strategies, government policies that entice capital to Bratislava, labour immobility, educational levels and other similar factors. Contributing factors include housing market rigidities, the local (rather than national) focus of job information available in most employment offices, and, in some cases, excessively generous social benefits.

• To attract capital, making it easier to do business in Slovakia should be the government's first regulatory priority. Yet the regulatory burden on new businesses remains at this writing too heavy and too complex. Lack of information about the requirements is itself a barrier to private enterprise development. To receive a trade license, applicants must provide confirmation of qualifications (including rather onerous certificates attesting to the lack of a criminal record and number of years of specialised education and training) and pay substantial licensing fees. Foreigners interested in establishing a business in Slovakia find it especially difficult to obtain trade licenses. An amendment was under consideration in 1995 that would reduce many of these requirements.

• Up-front taxes and fees could be reduced to make new entry less risky. Instead of focusing on these problems, which could be resolved at relatively low budgetary costs, government efforts to promote the domestic private sector stress tax holidays for new investment, guarantees, and subsidised and direct credits. The same problems afflict the promotion of foreign investment, the responsibility of the new Slovak National Agency for Foreign Investment. Foreign direct investment could more readily be encouraged by adopting a one-stop assistance approach that eliminates the problems of misinformation and delays in starting business.

The Carpathian Euroregion could benefit from this refreshing, new investment climate. This might include the following.

• One quick method for assisting the Carpathian Euroregion would be a proper government policy offering tax breaks and other concessions to investors who put their money outside the capital. This would more evenly distribute foreign investment, with a direct impact on unemployment levels in the region.

• Another method could be to actively promote transboundary cooperation among the five countries of the Carpathian Euroregion rather than, as is now the case, actively oppose it. This would animate the economy of this undeveloped area of Slovakia by making transboundary trade available. Improvement in the economy at the periphery of the country would, it seems likely, improve the national economy, at the very leat be diminishing dependencies on state supports.

• More creatively, local entrepreneurs could be encouraged through tax benefits and other economic incentives -- even by open and public support from the Slovakian government -- to seek outside investors for the Carpathian Euroregion. For example, the Institute of EastWest Studies has a small grant-making mechanism available from outside donors. This could be matched and expanded by matching local business men and women with foreign investors. The local mechanism is already in place to do this through the region's councils and working commissions, the Carpathian Chamber of Commerce and the Foundation for the Development of the Carpathian Euroregion.

Ukraine

The Private Sector

Here we find the now familiar litany of these Central and Eastern European countries. Following Ukraine's transition after 1989 -- with its turbulent economic environment, declining output, and lack of private sector tradition -- big problems persist. These include the uncertain and unstable economic and legal conditions under which firms must operate, the lack of bank financing -- mainly for investment purposes, but also for working capital -- and lack of banking services; high taxes, finding and hiring trained workers, obtaining satisfactory workspace, etc. Inflation during 1994 reached 3200 percent, giving Ukraine one of the highest inflation level in former Soviet Union, but by the end of 1995 it had fallen to a remarkable 60% -- still too high for comfort. In Ukraine, economic confidence deteriorated dramatically in 1992 and has continued to be highly vulnerable. The sale of state assets, launched in January 1995 with the goal selling off 8,000 large companies, has so far pushed only 95 companies into the private sector. For new entrepreneurs, it is like learning to swim in a stormy open sea.

Two problems add to the uncertain economy. One is an equally uncertain political stability. This is in part caused by the renewed interest in Ukraine by Russia where the old Comunist Party and its interests openly discuss the re-establishment of the old Soviet Union. This does little to nurture investor confidence.

The second problem concerns security and the so-called Ukrainian mafia. Safety and confidence are very important for Ukrainian entrepreneurs. The mafia -- actually small and isolated groups of thugs -- often serve as both criminal and protection agency. They are not unique to the Ukraine, but are found in most countries. In addition to providing protection, the Ukrainian mafia may also collect debts for the entrepreneur -- not only the original debt to return to the creditor, but also some multiple of the original amount as compensation for services. Mafia may even sit in on contract negotiations with other firms, to reinforce the bargaining position of the client and help ensure compliance by the second party.

Three identifiable groups of mafia exist in the country and they are methodically contacting shopkeepers and wholesalers to solicit funds for such protection. More than 40% of entrepreneurs have been subject to interference from a local mafia to date. Their role is not insignificant, both in terms of its extent and its costs to the entrepreneur and to customers. Cost increases may take several forms, such as bribes and other forms of corruption, but most common are demands for ''security'' payments which include protection from other mafia groups. This drives up the costs of doing business.

Entrepreneurs in Lviv, for example, report that each street retailer now has to pay a certain sum of money a day to the mafia or suffer damages to goods, shops and employees. Firms with higher revenues and more employees suffer from more interference. Other firms try to keep a low profile. They maintain modest offices or refrain from advertising or opening a hard currency account. Business as usual is unusual. One entrepreneur had his life threatened for undercutting the standard price mark-up on imported consumer goods and another had his windows broken after refusing to make a payment. Some firms make payment in the form of free or reduced price services.

Foreign Investors

For these reasons, Ukraine is one of the riskiest investment markets. Economic reforms were on an indefinite hold in 1995, with inflation running at 15% a month, the prospects for foreign investments legislation remote, investment guarantees nonexistent, and the government bureaucracy uninviting if not outright hostile. At the end of 1995, the IMF withheld $350 million of its $1.5 billion stand-by loan. Some doomsayers were wondering if Ukraine will be intact by the end of the decade.

Nonetheless, a country the size of France which stands at the crossroads between Eastern Europe and Russia could become an interesting -- and profitable -- market someday. This is, after all, the breadbasket of Central and Eastern Europe and a nation of vast natural resources and well-educated workers.

Foreign investment partners interested in establishing joint ventures within Ukraine now come from more than 100 countries. Between 1989 and 1993, the most active have been companies from Poland (651), Russia (466), USA (463), Czech Republic and Slovakia (total 399), Germany (361), Hungary (360), Bulgaria (218), Italy (121), Austria (118). As is the case of Hungary and Slovakia, however, foreign investment is cautious and stays primarily in the capital, Kiev. Not much flows from there to, say, Donetsk on the eastern border with Russia, or to Uzgorod in the heart of the Carpathian Euroregion, although Lviv and Transcarpathia have attracted sizeable investment, as Table 4.6 shows.

Table 4.6

The Largest Investment Centres in Ukraine

Region	Number of companies with foreign capital (total)

Kiev	504
Odessa	389
Lviv	194
Dniepropetrovsk	198
Harkiv	194
Transcarpathian	134
Donetsk	109

Source: Statistical Buletin of Ukraine (May 1994)
Carpathian Euroregion in italics

Jack: italics did not come across

<u>Unemployment</u>

More than 50% of Ukraine's entire population is employed (in Western Europe the number is about 40%), much of it in agriculture (19.8%) and manufacturing (53.8%). More than 20% worked in the military-industrial complex. The Ukrainian employment structure is similar to that of other Eastern European countries.

Unemployment data are still very difficult to obtain in Ukraine. The official rate of unemployment was reported in July 1992 as negligible, around 0.15 percent, and continues to be low, though rising slowly, early in 1993. Despite these figures, some estimates are that the number of unemployed has more than tripled since the first quarter of 1991. Of this, almost 70 percent were white collar workers and more than 70 percent were women, both previously sheltered in state-supported entrprises. The official unemployment rate in July 1993 varied from 0.01 in Vinnytsia oblast to 0.56 percent in Ivano-Frankivsk oblast. About one-third of the unemployed lost their jobs owing to liquidation or reorganisation of state enterprises.

Actual unemployment figures are very likely to be higher. Moreover, high employment in the Ukraine does not also equal high levels of production. There are reports of the widespread practice of cutting working hours while keeping idle labour. Credits from the state budget enable enterprises to go on paying wages without producing, thus avoiding layoffs. Printing new money has become a frequent government habit.

Since the late 1950s, labour hoarding -- an artificial economic policy of creating jobs where no real work exists -- has prevented any mayor manifestation of open unemployment in Ukraine. As in other countries in Eastern Europe, labour hoarding was accompanied by labour shortages. Between 1970-1989, employment growth slightly exceeded labour force growth, and the number of vacancies was consistently much higher than the small number of registered unemployed.

Not surprising, given the employment profile, Ukraine is experiencing a collapse in output. This has come about because of the disruption of the economy, price liberalisation, an imbalance between orders and available raw and technical materials, the breakdown in trade with Eastern Europe and the Baltics, and a decline in state orders for various products. Most managers believe the drop in the volume of production will be temporary. Anticipating new economic ties with Rusia and Europe and an increase of demand, managers continue to hoard labour. There has been a sharp increase in the incidents of extended administrative leave without pay, transfer to jobs with short working hours, discontinuance of shift work, and related changes that reduce hours worked while disguising the reality of unemployment.

The Ukraine Carpathian Euroregion

On the Ukrainian side of the border, the Carpathian Euroregion mirrors the economic neglect that occurs on the Hungarian and Slovakian side. But accurate statistics about employment and unemployment do not exist. Certainly, statistics are available, but they do not reflect the economic realities. For example, Ukraine claims that unemployment in Ushgorod is only 0.5% which reflects the continuing concept of labour hoarding and hidden unemployment. Workers may be assigned jobs that do not exist, or they may work only a few days a week.

These statistics are suspect because, of the four countries of the Carpathian Euroregion, Ukraine is the most impoverished and least economically stable. The economic pattern of the Carpathian Euroregion, seen in the neighbouring countries, is quite similar on the Ukrainian side of the border.

For example, Table 4.6 shows that the Transcarpathian region is next-to-last in receiving foreign investment in Ukraine. This compares with the capital city of Kiev, where (not surprisingly) foreign investment is almost five times the level as in the distant Carpathian Euroregion. As in Hungary and Slovakia, the periphery remains outside the investment core, such as it is, of Ukraine.

Recommendations

Corrections in the Ukrainian economy and political structure are already underway. But uncertainties to the east -- in Russia -- and to the west -- in Slovakia -- place this large country in a precarious geographical position. One recommendation is for patience. Comparing Ukraine with its neighbours to the west may be a mistake. Poland, for example, existed for centuries as a state with its own currency, banks, army, borders and internationally-recognized statehood. Periods of independence for Ukraine have either been a long time ago (the 9th to the 14th century; or the mid-17th to the mid-18th century) or have been brief (1917-1918). For more than 300 years, Ukraine appeared on maps as part of the Russian empire. From 1945 to 1991, Ukraine was part of the Soviet Union. Its politicians are now starting state builing largely from scratch; by 1996 there were small but positive signs (falling inflation, the IMF loan, slowly rising incomes, gradual privatization, etc.) of some modest success. Even small changes, may have large effect. So do modest recommendations:

• Because under the former Communist regimes there was no official unemployment, there are no statistics available to study employment patterns in the past. Indeed, there is no system in place for gathering and studing unemployment nationwide. In the future, Ukraine will need to develop a systematic approach to gathering unemployment data so that effective policies can be developed to address employment problems when and where they arise. For the present, policy data are far from adequate to design effective responses as economic problems emerge.

In order to plan, therefore, the government will need to start collecting reliable employment and investment data. This will be helpful to the Carpathian Euroregion, largely because it will identify what is now suspected: that investments flow into and round the capital making unemployment lowest; investments in the periphery -- Donetsk in the east; Transcarpathia in the west -- are low making unemployment correspondingly highest.

The major fault line that divides the Ukraine is economic.

Fortuately, reform of the economy is underway, with deregulation, liberalised prices and privatisation targets. Successful economic reform, however, requires four things: a good plan, implementation by capable people, financial assistance, and the political will to see it through. Three of the four are in place; all that Ukraine needs now is the political will to act.

• The struggles at the capital core may, ironically, prove beneficial to the Carpathian periphery. Attention since 1993 has been focused on the Russian-speaking peoples of eastern Ukraine and on issues between Ukraine and Russia over Crimea. Left alone, the people of the Carpathian Euroregion have the opportunity to develop their region through transboundary cooperation with the four neighboring countries. A little "benign neglect" from Kiev for the Carpathians could allow this region to undertake this economic develop.

How might this happen? The economies of Poland and Hungary are now robust. Linking Ukraine to them in the Carpathian Euroregion is likely to generate a stronger economy on all sides of these borders. The possibility (recommended above) of creating a special economic zone in the Carpathian Euroregion should bring almost immediate benefits to the Ukranian side. Trade along the Hungarian-Ukrainian-Slovakian border from Poland to Romania would obviously flow into the Ukrainian side. That trade would also fall into in the path of the rapidly developing transport of passengers and goods between east and south Europe into central and western Europe. Further, Poland and Hungary are likely to enter the EU before the year 2000, thus placing Ukraine on the border of this large economic entity. Given the pull of that market, Ukraine's own entrance into the EU would then only be a matter of time -- and political will.

Poland

The Private Sector

Three historical characteristics of the Polish private sector are important in understanding the current private sector development. The first is that Poland's private sector has been an active if cyclical participant of the economy since the Second World War. Second, private entrepreneurs were only tolerated under the former Communist regimes to the extent that they filled gaps in the state sector, e.g., small workshops that manufactured spare parts or built custom machines. In this role, many private enterprises held monopoly positions and worked for a single state client. Third, until 1989-90 private enterprise and the accumulation of profit were illegal.

Government treatment of the private sector has been characterised by brief periods of liberalisation interspersed between long periods of repression involving exorbitant taxes, tight restrictions on activities and the number of workers, and the threat of and retaliation for minor infractions. Medium and large enterprises were nationalised by 1947 and restrictions were placed on the remaining small-scale private sector. In the period of "uncompromising Stalinism" (1949-1953), the private sector was all but dismantled by the forced socialisation of industry and trade and the introduction of repressive policies regarding taxation, licensing, labour, pricing, and access to foreign exchange and intermediate inputs.

Privatisation was on a roller-coaster in Communist Poland. Following Stalin's death in 1953, policies governing private business were liberalised, then restricted heavily from 1958-1964, followed by a brief liberal period from 1965-1968, which was reversed again in 1968. In 1972, private industry was banned: all small scale activities were classified as handicrafts and enterprises were limited to 6 employees. After the workers uprising in June 1976, the private sector was liberalised again to redress severe market shortages. Martial law, imposed in 1981, reversed the process and tightened restrictions on private entrepreneurs.

Two laws, both passed in May 1990, strengthened the private sector development. The Act on Local Self Government granted municipalities property rights to shops, and municipal enterprises. This facilitated the mass leasing of retail shops to private owners under so-called "small privatisation", effectively privatising retail trade. The second law awarded tax concessions to new trading firms established in the second half of 1990. This resulted in a rapid expansion in the number of such firms, which were used for tax avoidance through innovative transfer pricing with manufacturing establishment.

The Polish private sector now employs almost 50% of the labour force and creates almost half of the total GDP. Still many problems still exist. These include access to credit, inadequate market information and impediments caused by the legal and regulatory framework. The sector is also operating without adequate access to credit. Further, concerns about a resurgent Communist Party, elected to office in 1996, cloud the Polish economy.

As Table 4.7 shows, the main expansion of the private sector is in central Poland and the north-west part of Poland (Warsaw, Poznan, Szczecin, Gdansk). The dominance of these regions comes from several different factors. They have always pioneered social innovation in the country and they offer the largest and most affluent consumer markets. Further, these regions monopolise the economic and political resources necessary for getting into business.

Foreign Investments

The current Law on Foreign Investments, passed on June 14, 1991, establishes the procedures and conditions for setting up a company with foreign participation. It abolishes some of the administrative barriers to foreign investment contained in the former law (dated December 23, 1988). This is not only the law affecting foreign investments, and some important related provisions are included in other laws, including foreign exchange regulations, banking, insurance, and telecommunication. To make things smoother, the old, separate Foreign Investment Agency has been abolished.

Unrestricted foreign investment is in reality growing slowly. Foresign direct investment was only $600 million in 1994, but is rising. Poland should attract investment, especially from foreign manufacturers of low-cost, high-

volume consumer goods. Its labour costs are a tenth of Germany's and its domestic market is the largest in Central and Eastern Europe. Investors are now gaining confidence in the country's economic policies. Commitments of new foreign direct investments reached $4.6 billion at the end of 1993. In all likelihood, new foreign money should stimulate more reforms. In addition, the IMF plans to press for continued privatisation and better management of state enterprises, a restructuring of the banking system and a reform of social services, which deliver too little bang for the zloty.

The pattern of regional distribution of the foreign capital is much the same as in other Central and Eastern European countries. One-third of all foreign capital was invested in companies located in the big four voivodships (administrative regions) of Warsaw, Poznan, Gdansk, Bielsko Biala. If we compare the size of invested foreign capital with the total number of employees, the highest values are shown in the voivodships of the central parts of Poland with US$1,500 capital investment per employee.

This characteristic also brings with it the unemployment pattern we have seen in other countries of the Carpathian Euroregion. In Poland, the critical consequence of the economic transformation is the new appearance and growth of unemployment. For example, in the middle of 1994 the number of unemployed workers exceeded 2.3 million, a rate 15%. The majority of those workers are in the rural sector along the borders.

The Polish Part of the Carpathian Euroregion

As seen in Hungary, Slovakia and Ukraine, the main expansion of the private sector is around the capital. In Poland, this expansion occurs in the central and northwest parts of the country. As mentioned earlier, one-third of all foreign capital is invested in companies located in the Warsaw, Poznan, Gdansk, Bielsko Biala voivodships. Voivodships in the central part of Poland attract the largest amount of foreign capital,averaging US$1,500 capital investment per employee. The dominance of these regions is the result of different factors. They have always pioneered types of social innovation in the country, and they offer the largest and most affluent consumer market in the country. Further, these regions monopolise the economic and political information which is necessary for entering business.

In the southeast peripheral region of Poland where the Carpathian Euroregion is located the level of invested capital is generally lower than in central part of Poland. (See the column "Number of foreign capital enterprises" in Table 4.7). In the voivodship of Rzeszow, for example, foreign capital is about US$900 per employee. In the voivodships of Krosno and Przemysl, by contrast, the estimated foreign capital is about US$300-400 per employee.

As in Hungary, Slovakia and Ukraine, high unemployment rates in Poland are matched with low low levels of company formation. This is certainly the case in the southeastern part of Poland -- the Carpathian Euroregion area. For example, as seen in Table 4.7, the unemployment rate in Krosno voivodship is 15.7%, in Przemysl 15.9%, and in Rzeszow voivodship 16.5%. By comparison, Warsaw voivodship has an unemployment rate of just 6.9% and Poznan 8.1%. It is important to underscore the fact that even the urban areas of the Carpathian Euroregion have a far lower unemployment rate than the rural areas. Unemployment is also closely connected with the comparative weak condition of state companies and very low levels of participation by foreign investors and the creation of new private companies.

Recommendations

• The present regional structure of the economy draws attention to several problems. The persistence of large regional differences in employment is a symptom of labour immobility. Contributing factors also include housing market rigidities, the lack of national job information, the need to nationalise social benefits and to make pensions portable. All of these can be addressed legislatively in Poland, and thus make benefits and opportunities more universal.

• The country needs a region which is based on a drawing force of a diversified market and not on a unified model of extensive growth. As in Hungary or Slovakia, this policy could help the organisation of regional and local markets and use the various implements of "enterprise intensification''. Development based on small- and medium-sized companies and changing the technology and the production structure would be a first step. This process, however, requires an economic policy advantageous for entrepreneurs, a decentralised power structure, and development conceptions initiated regionally.

Part Five: Conclusions and Policy Recommendations

Conclusions

As we have seen, the Carpathian Euroregion (CER) is a new border area concept removed by geographical and psychological distance from the various capitals. Nonetheless, the CER holds both problems and great promise. It is marked economically by high levels of unemployment, low levels of private and foreign investment, a weak infrastructure, poor education and labour immobility. On the positive side, the region is now peaceful with an inviting mountainous environment attractive to tourism; it is rich in its variety of historical towns and villages, but also close to cities (Kosice, Rzeszow, Lviv and Debrecen) large enough to offer social and cultural diversions and research and university centres.

The primary focus of the Carpathian Euroregion is economic development. The founders quite correctly believed that economic development could create political stability by off-setting or diminishing the potential for disputes or conflict in this region of fractious cultural, religious and economic diversity. The failure to create such development, however, an the continuing volatility of the region could cause local and regional misunderstandings, tensions or even conflict.

This paper sets forth these inherent economic and political dimensions of the Euroregions in general and the CER in particular. The economic issues have two underlying themes. One is the fact that the current economic structures of the countries of Central and Eastern Europe pulls disproportionte amounts of foreign investment to the capitals (and their surrounding areas). These regions have the largest number of new companies and enjoy the lowest unemployment rates. Any large-scale efforts to attract foreign investment elsewhere, if not generated by and from the capital centres, will be seen as competitive and unauthorised, as efforts to by-pass the economic heart of a country.

The second theme is that persistent low economic growth, combined with drawing political power from the periphery to the centre, is inherently destabilzing. High levels of unemployment, lack of investments, low levels of education, the out-migration of labour and the young -- all create an atmosphere of futility and despair in the border regions. This could lead to social unrest, regional disputes and even conflict.

The political tensions are equally complex. Euroregions in general and the CER specifically are seen from their respective capital cities as making economic and political decisions and policies that should be the rightful domain of the central government. In the CER, the political centre views this particular Euroregion with enormous suspicion. As mentioned, Rumania's border districts approved full membership in the Carpathian Euroregion only to be vetoed by the capital politicians. Slovakia's CER districts are seeking close affiliation with the CER, but they, too, are being cautioned by politicians and bureaucrats in distant Bratislava.

There is an underlying tone of rebelliousness along these borders. For example, in the Slovakian part of the Carpathian Euroregion near the Hungarian border, unemployment has reached 30%. The Hungarian minority, not to mention the Hungarian government, sees this as blatant discrimination which exacerbates the impression that this minority in the CER region have no chance for a better future. Moreover, dissatisfaction in the margial parts of these five countries does generate nostalgia for an era when unemployment was non-existent or at least hidden. This could bring power to more authoritarian forms of government. As a representative of the Business Forum said: "We are not especially thrilled by politicians' discussions. We are concerned about people supporting themslves. We will continue to go about our own business, either as part of the Euroregion or without it, though we understand that the Euroregion can help us."

Given all the tensions and problems, why should Euro-regions be involved at all in the economic integration and political cooperation of Central and Eastern Europe? The anwer is simple: Because they work. As the Regio Basiliensis model illustrates, people from different countries, ethnicities, religions and political systems -- people who have triggered two great European wars in the 20th century -- can form a political entity based on social and economic cooperation. And that entity -- that Euroregion -- can achieve transboundary cooperation, diminish the potential for conflict, and increase economic prosperity. Second, the Euroregions of western Europe now form the foundation of the European Community. They are the local, transboundary political and economic instrument that makes the EU work.

International stability in the Carpathian region, and along the other borders of Central and Eastern Europe, can follow the Regio Basiliensis model and the EU example. Transboundary economic and political cooperation have proven to be long-lasting, of enormous social benefit, and conflict reducing in western Europe. They offer excellent and working forms of transboundary governance now tentatively underway in Central and Eastern Europe.

Recommendations

(1) Create economic incentives for small- and medium-sized enterprises

in the CER.

The creation of better economic conditions and incentives for small- and medium-sized enterprises would be easy, work quickly and be extremely helpful. Joint trade and business undertakings could be designed to enhance mutual trust, openness and economic gain.

• Tax breaks and other concessions could be given to investors who put their money outside the capital region. This would more evenly distribute foreign investment, with direct impact on unemployment levels and levels of discontentment in the border regions. This single step, with little potential for significant negative impact in the wealthier areas, would go far in creating economic and political stability in the CER.

• Joint exhibitions, trade fairs and company "open days" could be used to establish links between producers and suppliers, joint purchasing agreements for agricultural products, transboundary marketing strategies, etc.

• Local businesses could benefit from accurate business information and the better exchange of that information. This could include labour sources, work procedures, suppliers in neighbouring regions, business contacts, etc. This information, plus data, brochures, technology, university research, development programmes and the like could be offered in the languages of the region and in regular circulation or mutual seminars or workshops.

• Transbounday blueprints could be drawn up covering all aspects of community life.

• Formal and informal transboundary cooperative networks of small- and medium-business leaders could be established through the existing or newly-created agencies. This would include chambers of industry and commerce, agriculture and crafts unions, employers associations, trade unions -- all of whom would be encouraged to cooperate with their partners across the border for mutual gain.

• These networks could then be used to establish long-term planning structures -- workshops, university-run seminars, business meetings -- to consider the development of the region and to analyse social, political and economic trends of the Euroregion.

(2) Recognize national vocational qualifications.

Little by little, vocational training is gaining acceptance across the borders of the CER. But in order to make a transboundary labour market a reality, not only must transboundary businesses be assisted (as above), but workers must also be employed outside their home countries on the basis of the national vocational qualifications. While university diplomas are largely recognized and accepted throughout Europe, practical and skilled trades diplomas and certificates are not. The standardization of vocational education and the international recognition of vocational qualifications is needed immediately.

This could be done through cooperative measures within the Euroregions themselves. For example, in the German-Dutch Euroregio, cooperations between German and Dutch chambers of commerce and industry, trade unions, employers and labour authorities have created transboundary bilingual vocational training courses with internationally accepted diplomas. Not only does this increase job training and opportunities within the Euroregion, but it also creates work itself in the field of vocational education.

(3) Create special economic zones.

As mentioned, such zones were proposed during a conference arranged for Hungarian and foreign investors in Zahony. It would immediately take advantage of the Carpathian Euroregion's geographic location in the path of the rapidly developing rail and road transport system from East and South Europe into Central Europe and the EU.

Implementation

The institutional infrastructure to help implement these recommendations is already in place in the Carpathian Euroregion. These include councils and working commissions focusing on joint trans-frontier projects and initiatives such as health care, trade fairs, cooperation between police departments and universities, and a summer school for teachers of history in the region. Such incentives are extremely beneficial to the region. The first Association of Carpathian Chambers of Commerce started in 1993 followed by the first conference for Carpathian Euroregion entrepreneurs in August 1994. The First Euroregional Fair, held in Jaslo, Poland, in February 1993, for example, generated more than US$40 million in contracts for Carpathian Euroregion entrepreneurs.

International support for the region is also growing. One excellent example is the creation of the Foundation for the Development of the Carpathian Euroregion (FDCE), the first NGO to be developed around the Carpathian Euroregion concept. FDCE provides grants and technical assistance for cross-border cooperation in the region.

This institutional framework can be improved by introducing effective cooperation mechanisms. The Carpathian Euroregion Association is a transitional legal instrument which allows partners to link their activities. This association could be supported and strengthened.

At the same time new and complementary activities can be developed. All economic units, regardless of the size and type of economic activity, may set up a type of Carpathian Euroregion Economic Interest Group (CEEIG). This institution will be most beneficial to small and medium-sized enterprises, whose cooperation with partner firms of other Carpathian Euroregion member states is actively supported.

The CEEIG has the advantage of providing a legal framework that is fixed from the outset and a flexible means of operation, which respects the balance between the member states. With the help of CEEIG, firms could join forces to carry out economic activities. For example, firms might undertake joint work in the field of research and development, buying, production, marketing, electronic data processing, forming multidisciplinary consortiums for tendering for public and private contacts etc.

Other important instruments in promoting transfrontier cooperation could include a Carpathian Euroregion Information Centre (CEIC) to provide tailor-made assistance to small and medium-sized enterprises. Thanks to the connections with currently existing Euro-Info Centre, the CEIC could be linked to a central ''task force'' with access to European Union data banks. CEIC could supply information about legislation, taxes, loans and research programmes. Furthermore, it could function as an advice and early-warning centre for the Carpathian Euroregion market handling complaints about trade barriers, competition problems, unemployment etc.. The CEIC could be a data network for cooperation between firms.

In general, there has been no lack of ideas or initiatives -- only the lack of political will to translate ideas and initiatives into concrete action. The reluctance of the governments of Slovaika and Romania to participate fully in the CER may harm them economically and politically as the region develops and as the EU continues to expand. The Carpathian sections of Slovakia and Romania could get left behind, although one should keep in mind that it took more than 20 years for the Euroregions in western Europe to get underway and achieve measurable results. Given events in former Yugoslovia and in the Caucuses, however, it is difficult to argue against assisting the Carpathian Euroregion, with its enormous potential to create political stability. [END]

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