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TRENDS IN REGIONAL POLICIES IN OECD COUNTRIES
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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

This study on recent trends in regional policies is a continuation of the efforts initiated at the beginning of the 1990s to find new instruments and policies to redefine territories and seek new forms of partnership.

The study covers the years 1994-95 and was compiled last year. During the period reviewed, international trade and direct investment remained buoyant, but few OECD Member countries performed well on the employment and growth fronts.

Regional disparities have increased in most countries, not only in terms of income or employment, but also as regards infrastructure provision, education and the quality of the environment.

This growing inequality is explained by cyclical trends and the budget cuts that countries have been forced to make. But central governments have responded to the situation. They have sought to strengthen co-operation with local authorities and to promote new forms of partnership, particularly with the private sector. Likewise, inter-regional and cross-border co-operation has been increased with the object of promoting dynamic areas spanning several regions.

The replies to the questionnaire on regional policy trends which appear in Part II of this studyt confirm the common diagnosis and provide valuable information on the new policy approaches.

This report is published on the responsibility of the Secretary-General of the OECD.

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INTRODUCTION

Every two years the Working Party on Regional Development Policies carries out a study of recent trends in regional policies in OECD Member countries.

The Third Meeting of OECD Ministers Responsible for Regional Policy, which took place in Vienna on 13 April 1994, revealed a major shift by the international community to a new model for regional development. 1995 saw some of these new policy guidelines being put into practice.

The objective of the questionnaire sent to group members was to obtain further information on this new approach to regional development. Sixteen countries responded: **Germany, Australia, Austria, Belgium (Flanders), Canada, Denmark, Spain, United States, Finland, France, Greece, Italy, Portugal, United Kingdom, Sweden, and Turkey**. General information has also been provided by certain Member countries (e.g. Mexico, Korea, Hungary and Poland).

The aim of the present report is to describe these changes, most of which were introduced during 1993-94. In addition to the analysis of regional policy trends presented in Part I, a summary of national policies for regional development reflecting the situation in early 1996 is included in Part II. A uniform layout has been adopted for the information presented in the summary in order to facilitate comparisons between countries and allow geopolitical zones or groups of countries with similar approaches to regional policy to be identified.

In addition to responses to the questionnaire, this report and especially Chapter I is based on various national reports and OECD work (e.g. from the Directorate for Science, Technology and Industry).

Part I. GENERAL TRENDS

Chapter I. THE FINANCIAL AND ECONOMIC ENVIRONMENT IN REGIONS

Following the serious recession which struck the OECD area at the beginning of the 1990s, there has been a return to growth by almost all countries in recent years. Although this trend has slowed recently, growth should reach 2.4 per cent in the OECD in 1996, after just failing to break the 3 per cent barrier in 1994 (compared with 1.2 per cent in the previous year).

The resumption of growth has been export led in most of the big countries, given the international trade boom (+8.5 in 1995 but only 4 per cent in 1996). The strong increase in investment has also been a major contribution to GDP growth especially in North America, Japan (1996) and the United Kingdom and in most smaller countries. Central regions in most countries have followed the same pattern of growth.

In spite of this favourable economic environment, some macroeconomics trends are less positive. The first section will draw attention to the (mitigated) results in the employment field. The second section will focus on the increase in regional gaps and their sectorial dimension. Indeed regional competitiveness rests upon the variations of key economic parameters such as infrastructure investments, innovation and research capacities or direct investment influx. Analysis of trends in these parameters will be dealt with in the third section. Finally, the fourth section will be devoted to some regional implications of fiscal and monetary policies.

Overview of the recovery

The recent slowdown (for the whole OECD area, GDP increase was fairly modest in the past two years) is partly due to the decline of economic activity in Japan (in 1995) and during the second half of 1995 in Europe, as well as the financial crisis that erupted in Mexico at the beginning of the year. Weak output growth was particularly notable in France and Germany. Nevertheless, overall growth should improve in 1997. The countries that first shook off the recession -- the United States, Canada, the United Kingdom, and Australia -- showed no signs of a slowdown in economic activity. In particular, the United States, which returned to growth in 1992, is continuing along the path of recovery despite the fact that some slippage is recorded from quarter to quarter. Moreover, the growth process seems to have gained momentum in Japan.

This low inflation recovery - consumer prices have only risen 2.5 per cent on average in 1995 in the OECD area (excluding Greece, Portugal, Mexico and Turkey) -- taking place in the vast majority of OECD countries has not had any significant impact on unemployment during the period under review. Employment figures improved with the increase in activity, however this effect was much less marked than in previous cycles. For example, employment growth remained negative in 1995 in Southern Europe (excluding Greece and Spain), Germany, Belgium, and Austria. In fact, the countries most affected by unemployment (particularly those with unemployment rates around or above 10 per cent) were also those which showed the least signs of returning to growth, no doubt due to the structural rigidity of their job markets. A certain ebb in the tide of unemployment was recorded in 1995 (in Canada, Spain, Finland, Denmark and to a lesser degree in Germany and France). In countries where a more robust recovery is underway this trend is more pronounced (in the United States more than ten million jobs were created since 1993, representing a drop of 1.4 per cent).

These mixed results in the employment field are confirmed by other data:

- long-term unemployment continued to rise in Europe in all age groups, reaching levels three times higher than the OECD average;

- young job-seekers (under 25 years of age) had increasing difficulty finding their first job in countries with the worst unemployment figures;

- in the current cyclical upswing, the proportion of part-time positions being created were higher than in previous cycles and were continuing to grow in all countries, thus contradicting previously observed phenomena;

- discouraged workers[1] now represent a significant proportion of the population, with figures rising to as high as 2.5 per cent of the active population in Sweden, Japan, and Italy.

In this context, several countries (Canada, Austria, France) tightened their controls on immigration flows from developing countries. These flows nevertheless continued to increase especially in the European Union and particularly in Germany for economic and geopolitical reasons. It is generally admitted that external migrations tend to aggravate inequalities between central and peripheral regions.

Regional aspects of the recovery

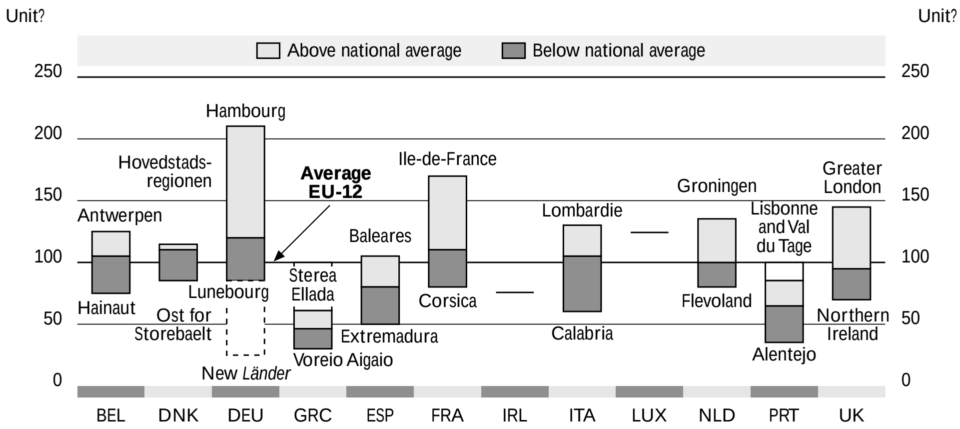
As the Working Party has shown on several occasions in the past, the most developed regions generally profit more from periods of growth. The 1994/95 upswing is no exception to this rule with interregional performance differentials tending to become more pronounced. Another aspect of the increase in economic activity in Member countries at the time is the role played by industry as the source of innovation and the means by which it is made available throughout society. This process generates gains in productivity for the entire economy and its individual regional components. The recognition of this fact by the US Government has led it to place industry at the heart of its competition strategy[2]. Finally, the return to growth encourages enterprises to adopt a global outlook in defining their strategies, a development which is helping to significantly change regional activities and employment.

a) Increasing desynchronisation and disparities between regional economies

These current macro-economic trends produced both positive and negative effects on the regional level. Even though some countries have reported reductions in, or at least a "stabilisation", of regional disparities (although this can vary depending on the criteria chosen: output, employment or unemployment), there are also many others where a regional imbalance has become apparent This phenomenon could even be interpreted as one of the characteristics of the recovery, helping to explain why some countries have been so slow in leaving the recession behind them, why growth rates have remained so modest, and even providing a reason for the premature slowdown at the end of 1995. Confirmation of such a hypothesis would require additional detailed studies to be made covering wide geographical areas. We will limit ourselves in this document to analysing briefly one or two countries which will serve as examples.

In the United States, a comparison of output and unemployment figures for the main regions[3] reveals the existence of close cyclical synchronisation until the end of the 1980s. However, the recession of the 1990s accentuated some differences. In addition, the slowdown resulted in some individual regions falling out of step with their neighbours in terms of development. Recent economic data seems to confirm this trend. For example, certain states of the Sunbelt and various parts of the West continue to register above-average growth rates and output figures because of their ability to attract foreign investment, their moderate labour costs, and fiscal incentives. High-technology industries are continuing their investment drive in the Rocky Mountain States (Arizona, New Mexico and Utah). In contrast, the economies of the Northeast, which are vulnerable to cuts in defence spending and whose main industries are still undergoing restructuring, have remained fairly stagnant.

◆ Figure 1. ***Regional variation (NUTS 2) in GDP per head (PPS) by Member State, 1993***



Note : The regions mentioned are those with the lowest and highest GDP in each country.
Source : *Competitiveness and Cohesion Trends in the Regions*; Fifth Periodic Report on the Social and Economic Situation and Development of the Regions in the Community, European Union, 1994.

In the European Union, even though the disparities between Member States have narrowed over the last ten years in terms of per capita GDP, regional differentials have remained largely unchanged and the positive trend registered at the end of the 1980s has vanished during the 1990s. In fact, if we compare the ten strongest and ten weakest regions, we can see that the gap widened even further between 1980 and 1991. There are still significant relative disparities between various countries (see Figure 1 and Table A4 in Annex). In France, the recovery has exacerbated the relative differences in regional unemployment rates (they ranged between 7.1 per cent and 15.8 per cent in 1995)[4]. Regional disparities continued to worsen in this country because of demographic factors and the concentration of activities in particular areas throughout the country.

Finally, several countries have reported that differentials on the sub-regional level stubbornly remain, or indeed are widening, despite a reduction of disparities on the regional level. This is particularly the case in the United Kingdom. In the United States, the 50 largest metropolitan areas reported unemployment rates ranging between 3 per cent and 9.5 per cent in 1994, compared with a national average hovering around 7 per cent[5]. Furthermore, within regions and especially metropolitan regions, even if people's mobility has increased, job volatility has been more important, resulting in a growing concentration of population in big city suburbs at the expense of rural spaces and, often, of small or medium size towns (e.g., Sweden, United States).

b) The manufacturing industry and related services -- the motor for regional recovery

In most countries, industry has benefited from the return to growth much more than the rest of the economy. This revival has been particularly noticeable in the smaller countries where industrial output experienced a genuine boom in 1994 (nearly 12 per cent growth in Ireland and Denmark, approximately 10 per cent in Australia and Spain, and over 7 per cent in Sweden and Switzerland). Despite slower growth in 1995 in European countries (Italy excluded), basic conditions are still favourable. This trend can be explained by the return of domestic demand to robust levels and especially by the level of capital investment (machines and tools).

Industrial expansion provides an opportunity for structural adjustment, and many countries have witnessed changes to their industrial base which reflect the relative strengths and weaknesses of their various national industrial sectors. In the United States, the fastest growing industries are those investing in new technology and which rely on domestic demand from the environmental, computer services, health and durable goods sectors. Their relative importance is growing as a direct consequence of this (examples of this are electronic components, scientific instruments, automobile spare parts, etc.). In Europe, as in the United States, aerospace and defence industries are registering their worst results ever as the result of a cyclical downswing and cutbacks in military spending. The decline of these sectors has led to job losses in almost all countries (a drop of 12 per cent between 1991 and 1993 for the European aerospace sector). Other factors which have led to falls in employment levels are productivity gains in traditional industries (a fall of 13 per cent in the textile and clothing industries in the European Union) and the restructuring of production structures (a drop of 10 per cent for the European automobile industry over the same period).

These structural adjustments have been decisive because they were set by the conditions under which manufacturing industry could become the engine of economic resumption. Several analyses confirm the essential role played by the manufacturing sector during the reviewed period. In Europe, many cities and industrial centres have been at the edge of the recovery since 1993. Most performing regions (see Table 1) were those with a diversified structure and dominated by high tech industries such as Brabant (electronics) or Lombardia (Automobile).

In order to optimise the conditions in which this renewal of production structures is taking place, regional and industrial policies should concentrate on increasing the pace of structural adjustment rather than attempting to slow it down. It is important to ensure that capital is not drained in unproductive practices. As is shown by the example of Japan in Figure 2, the amount of long-term employment generated is directly proportional to the amount of effort put into structural adaptation. A region severely hit by industrial decline could in fact recover quickly and regain a competitive edge. This was the case in California where a little more than 500 000 jobs were lost between 1990 and 1993 due to a decline in military orders. In two years, these losses have been compensated for due to the boom in entertainment industries and tourism, and improved growth in foreign trade and support services.

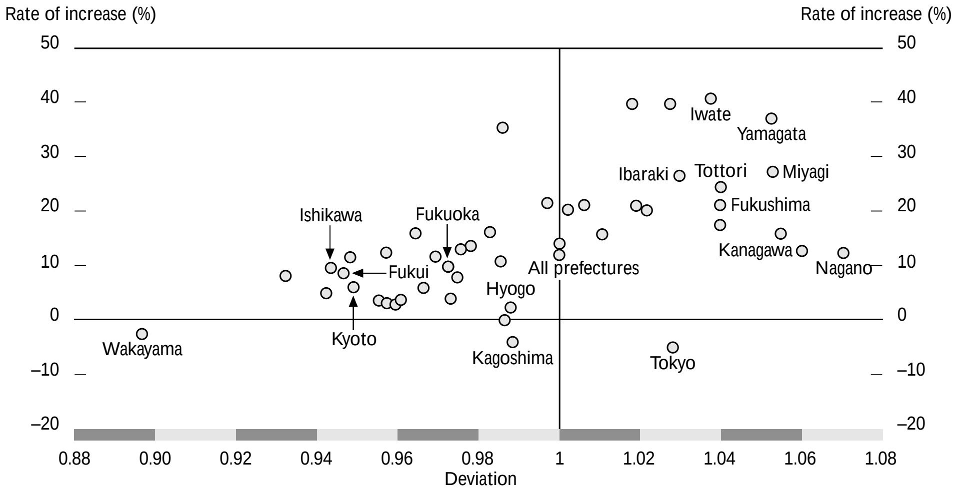
Table 1. **Regions ranked by growth of Gross Value Added, 1993-99**

	Area	% per year
Top ten regions[1]		
Veneto	Northern Italy	4.1
Ireland	Irish Republic	4.0
Berlin	North-East Germany	3.8
Flevoland	Central Netherlands	3.7
Marche	East-central Italy	3.6
Friuli-Venezia-Giulia	North-East Italy	3.6
North Brabant	South Netherlands	3.6
Overijssel	East Netherlands	3.6
Basque Country	North-East Spain	3.6
Lombardy	North Italy	3.6
Bottom ten[1]		
Detmold	North-West Germany	1.7
Lorraine	Eastern France	1.6
West Macedonia	Northern Greece	1.6
Lower Normandy	North-West France	1.6
Limousin	Central France	1.5
Central Macedonia	Northern Greece	1.5
East Macedonia-Thrace	Northern Greece	1.4
Crete	Greek Mediterranean	1.3
Sterea Ellas	Central Greece	1.3
Auvergne	Central France	1.2

1. Excluding the eastern *Länder.*
Sources: Eurostat, national sources, ERECO, 1995.

A useful indicator that provides an additional insight into the level of regional activity is the renewal rate of the industrial framework, measured by the number of new enterprises being created. In the United States this figure rose by 6 per cent in 1993 while bankruptcies and business failures decreased by 11 per cent. At the same time, business terminations increased by only 2 per cent. The Western States (excluding California) reported the highest figures for the registration of new firms (with increases

Figure 2. ***Relations between degree of "Deviation" towards booming industry and rate of increase in employed persons***



Source: Bank of Japan, 1995.

of more than 10 per cent in Montana, Oregon, Idaho, Nevada, Arizona, and Utah), and for job creation. The performance of the North-eastern States in this area was lacklustre with net increases in job creation taking place exclusively in industrial sectors dominated by SMEs (see Tables A1, A2 and A3 in Annex). This concentration of job creation in a small number of regions was mirrored in the United Kingdom where figures for the appearance of new firms fall off outside the South-eastern regions. In France, the last recession has had a minimal effect on the company registration rate. Any changes to the national pool of enterprises have come mainly from companies disappearing rather than from any new ones being created.

c) Growing regional openness to international trade

Over the last few years, central governments have been putting considerable effort into improving the functioning of the multilateral trade system. We need only mention here the numerous agreements concluded during the period in question eliminating a myriad of tariff and non-tariff barriers: the successful conclusion of the Uruguay Round in December 1993, the creation of the North American Free Trade Area (which came into force on the first of January 1994), an association which Chile should join in the future, the completion of the Single European Market (which came into force on the first of January 1993), the expansion of the European Union to include Austria, Finland and Sweden, effective from the beginning of this year, not to mention the multiple bilateral agreements signed around the globe. Between 1990 and 1994, 32 regional integration agreements[6] were registered with the GATT compared with five between 1985 and 1989.

The national authorities of all countries are aware of the potential gains in growth, employment and competitiveness which could flow from increased trade. In recent years, Member countries have continued to develop their export and import policies. For example, in the United States in 1993 the President introduced a national export strategy involving the provision of advice, the creation of support centres for industry, and the granting of credit facilities.

Regional and local authorities in numerous countries have set up programmes to encourage exports. In France, most regions offer a variety of support programmes to enterprises (mainly SMEs) including market survey insurance, coverage of credit and manufacturing risks, etc., although the amounts involved are relatively modest (US$ 12 million annually for all regions combined). Exposure to international trade is still highly concentrated, with five regions (Ile de France, Rhône-Alpes, Nord-Pas-de-Calais, Haute Normandie and Alsace) representing 51 per cent of total exports and with Ile de France responsible for 33 per cent of imports because of its leading role in the redistribution of goods.

In the United States, at least US$ 100 million is invested annually by the states in international development programmes. In almost 20 of these states, the proportion of manufactured goods destined for export exceeds 10 per cent, representing between US$ 15 billion and US$ 40 billion for Illinois, Michigan, New York, Ohio, Washington, Texas, California and more than 8 per cent of total employment in 1991 (see Table A5 in Annex). Export growth is far higher in the Sunbelt and the Western states than in the Rustbelt. An analysis of geographical and structural components[7] reveals the decisive role played by the domestic market and its overall growth. In many States the distribution of exports differs little from their position in the national breakdown. However, the regional component is decisive in Alaska, Hawaii, New Mexico, Oregon, Washington, Utah, South Carolina and, to a lesser degree, in California and Florida.

Evolution of the factors determining regional competitiveness

As a general rule, the comparative advantages of a given region depend on its ability to generate wealth and adapt to economic and technological change. Among the specific factors which together determine regional competitiveness, investment in infrastructure networks (transport, communications, etc.) is the most important. Economists have identified a clear relationship between investment in this area and the productivity of regional enterprises. Direct foreign investment, which can provide a significant boost to local and regional business activities, is a second factor which must be taken into account. Finally, trends in the fields of public and private research must not be overlooked as they provide the basis for the ongoing success of regional economies. Other factors come into play to determine the competitiveness of a given region (the characteristics of local demand, labour costs, competences and educational level, etc.). These additional factors will not be considered in this report, either because no data is available on them, or because they have a less decisive impact on the regional level.

***a) Material infrastructures*[8]**

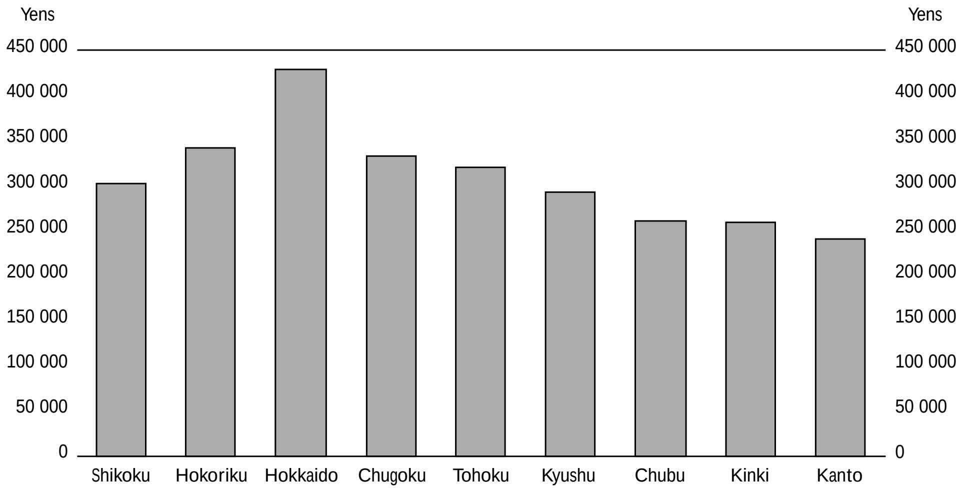
Many countries are aware that some of their regions are under-equipped and that some sectors throughout the country are under-developed. However, their priorities differ.

For some, given the poor quality and insufficient coverage of their networks, a complete overhaul of their infrastructure is necessary. This is notably the case with the four poorest members of the European Union. Between 1994 and 1999, these countries should spend 2 per cent of GDP on their transport infrastructures (more than double the Community average) aided by Community joint funding. In Spain, Portugal, Greece and Ireland, the rail network is inadequate and usage figures for both passenger and freight services are much lower than in other European Union countries. In the area of road transport the relative spending of these countries only rose above the Community average at the end of the 1980s.

In other countries, the policies adopted reflect the twin concerns of national governments: improving transport links to adapt to the creation of a vast new economic space, and opening up specific regions to increased trade. In Japan, per capita public investment in the three most populated regions (Kanto, Kinki, Chubu) ranges 15 to 55 per cent below its level in other parts of the country (see Figure 3). In France, the boost given to the highway development project over the last years represents an attempt to respond to these two challenges. In particular, it is intended to modify the current system of radiating highways centred on the capital and transform it into a lattice network so as to "reintegrate" neighbouring regions which have been marginalised up to now. The air transport sector is also trying to break out of the centralised model by encouraging the development of country facilities and interregional routes. High-speed rail links are increasingly being developed with the explicit goal of furthering European integration. Finally, intermodal transport systems are becoming increasingly popular.

A third group of countries concentrates most of its efforts on this last area, while continuing to stress the importance of maintaining existing structures. For example, the upkeep of transport infrastructures is considered a crucial issue in the United States where a substantial backlog has built up. The Competition Council has recommended that the Clinton Administration take steps to change the entrenched "do it tomorrow" attitude that has reigned for so long in the field. The Council has also stated its support for full implementation of the 1991 ISTEA Act (Intermodal Surface Transportation Efficiency Act) so as to develop intermodal transport networks. Finally, the Council is proposing a reform of the air traffic control system, the development of new transport technologies, and the drafting of a capital budget and the use of long-term loans to minimise the impact on the public deficit.

◆ Figure 3. ***Public investment per capita by regions in Japan, 1992***



Source: OECD, 1995.

Communications infrastructures raise similar issues. Despite the rapid growth of telephone services in many less developed Member countries, parity with the services available in the more developed countries is still a distant goal. The density of lines in Spain, Portugal, Greece and Ireland when compared with France varies between 50 per cent and 80 per cent, despite an increase in investment in recent years equal to 30 per cent of per capita GDP. Line density is also low in the new German *Länder* (13 lines/100 inhabitants compared with 58 in Denmark). Regional differences remain significant (between 18 and 35 lines/100 inhabitants in Portugal, and between 28 and 51 in Greece). The technological level of communications infrastructures in the European Union also varies widely (the proportion of subscribers with access to a digital network varies between 8 per cent in Greece and 75 per cent in France).

It is more difficult to make comparisons between public investments in environmental protection because of the differences between individual geographical and climatic conditions. In this area the goal is compliance with Community standards for sewage treatment, waste disposal and water supply. It is thought that a total investment of ECU 1.7 billion will be needed to bring the four least developed countries of the European Union into line with Community standards between 1993 and 2003.

In fact, funding for all these government projects is proving harder to find than in the past due to the almost universally depleted state of public coffers. The European Union is no exception to this rule, even though a large proportion of the Structural Funds allocated to priority regions 1, 2, and 5(b) are slated for infrastructure projects. There is no doubt that the private sector is being petitioned to make up the shortfall. However, private enterprise is reluctant to become involved in major construction projects or those offering only an average return. Further, recent experiences like the Channel Tunnel have made private investors even more wary. All this is compounded by the increasing risks and costs involved in debt financing. As a result, starting work on the giant infrastructure projects approved during the Council of Europe's Essen Session at the end of 1994 (the Essen list) runs up against difficulties of two sorts:

– highly profitable projects involving urban zones are facing opposition from political and environmental groups;

– less profitable projects are hampered by lack of funding.

b) Direct foreign investment

For sub-national regions, and especially underdeveloped regions, direct investments constitute a welcome injection of capital, a boost to job creation, and often the introduction of new technical know-how. Even though this is usually limited to the take-over of existing assets, their contribution to local economic activity and ongoing structural change is particularly appreciated.

In order to attract direct foreign investment, central government and regional authorities are often tempted to improve the attractiveness of regions by offering multiple incentives, especially if a region is characterised by disadvantages (geographical proximity of the enterprise's markets, availability of skilled labour, possibilities of creating an industrial cluster, access to appropriate infrastructures, quality of life) which work against the establishment of new enterprises. These incentives have only an indirect effect and can prove to be very costly.

An analysis of cumulative inventories shows that the largest countries (except for the United States between 1981-93) are net exporters of fixed capital, with Japan and Germany usually leading the field. This trend has naturally become more pronounced during the recovery. In Europe, the United Kingdom is the largest source of direct foreign investment, however these funds are mainly aimed at non-EEC countries. In contrast, Germany and France are the two largest investors within the Community with the net amount of funds flowing out of their borders respectively three times and two times higher than incoming investments. Given that the poorest members of the European Union are net beneficiaries of these investment trends (including the United Kingdom), direct foreign investment appears to promote overall cohesion, a fact confirmed by events over the last few years.

Turning to the regional impact of these investment flows, three observations can be made:

- The amount of funds involved is significant: total incoming investments in the United States were in the region of US$ 75 billion during 1995. With the opening of the Single European Market, they gradually stabilised around US$ 70 billion in the European Union during the same period. Between 1986 and 1991 they represented nearly 6.5 per cent of GDP in Ireland, 4 per cent in Belgium, 3 per cent in Portugal, and 2 per cent in the Netherlands and the United Kingdom. However, it is likely that the pace of these investments has slowed in the intervening period.

- These investments often clearly outweigh public injections of funds. For example, in the less developed countries of the European Union the inflow of capital represented by direct foreign investment between 1986 and 1992 generally exceeded the amounts received from the Structural Funds. This trend was particularly strong in Spain, where massive direct foreign investment took place, and was also visible to a lesser degree in Portugal, where lower costs played a role, and in Ireland. In contrast, foreign investment in Greece was limited to a handful of sectors, such as tourism, and annual inflows did not top the US$ 1 billion mark.

- The general effect of foreign capital has been either to increase regional imbalances or only make limited improvements to existing situations. Two explanations can be found for this phenomenon. First, outlying regions have not always successfully promoted the industrial advantages that they can offer to enterprises seeking a new site. Second, the 1980s were characterised by a partial rechannelling of direct investment into tertiary activities and the multinationalisation of services, factors which made central regions and metropolitan zones all the more attractive.

However, it would be inaccurate to suggest that this situation is the result of ineffective regional policies. In fact, several countries had some success in attempting to influence the geographical distribution of foreign investment. In the United Kingdom, for example, measures by the central government, together with programmes implemented by the Welsh, Scottish and Northern Irish regional authorities, helped encourage many enterprises to develop sites in outlying regions during the 1980s and channelled 44.5 per cent of the resulting jobs created to these regions. In France, even though the Paris region still attracts a substantial proportion of direct foreign investment, recent figures reveal a better geographical distribution. In 1995, 264 new projects were announced. These led to the creation of nearly 20 000 jobs (an increase of 15 per cent over 1994), with 14 per cent of these new positions situated in the Provence-Côte d'Azur region.

c) Capacities for innovation

Periods of positive growth are generally accompanied by increases in research budgets and the development of capacities for innovation. The rise in confidence encourages risk-taking and the increase in profits reduces financial constraints. Globally speaking, this simple rule has been followed in recent years. The revival in R&D spending has remained modest, especially due to the negative counterbalancing role played by government spending patterns. In continental Europe, however, the government role was positive, allowing Southern European countries (excluding Spain) to register the highest growth rates in 1993. In contrast, the withdrawal of government funds from this area in the United States and the United Kingdom led to a decline in the numbers of scientists and engineers working on R&D.

Care should be taken not to allow these trends to mask the very wide range of national performance in this area. In fact, the range of performance here is far wider than national differences in per capita income. For example, the technology propensity (R&D/GDP) of Southern European countries (excluding Italy) varies between less than a third (Greece, Portugal) and less than a half (Spain, Ireland) of the Community average (2.2 per cent). Japan (3 per cent), Germany (2.8 per cent) and the United States (2.6 per cent) lead the field. Disparities are also very wide in terms of private spending in R&D, a decisive factor when considering the transformation of research into new products and services for the marketplace. Figures vary in Europe between 22 per cent (Greece) and 72 per cent (Germany, Belgium). These differences remained virtually unchanged throughout the period in question.

Another important characteristic of research and innovation structures is their very high concentration in a small number of regions. In the corporate sector, the regional research rate (R&D/Regional GDP) varies widely (between one and ten in Germany, and between one and 40 in Italy). A study by the European Commission entitled The European Archipelago has shown that within the boundaries of the European Community the main research networks are centred around ten small "islands" of activity (geographically limited and mainly urban areas). These islands[9] account for 80 per cent of Community laboratories taking part in joint international research. The introduction of new technologies (which these laboratories favour heavily) does not seem to be reducing the geographical importance of the regions in which they are located.

In order for the less advanced regions to close this gap, they must:

a) Increase their readiness to adopt new advances in technology and know-how. One possible approach is to increase spending on technological infrastructures, but this must also be accompanied by a push in the communications field (creation of an information network for the technologies of the future) and an active effort to introduce foreign techniques. It should be pointed out that the adaptation of such techniques for regional use requires a certain investment in R&D in itself.

b) Develop their openness to innovation. In outlying regions, SMEs and traditional industries generally predominate. Their business strategies are often technologically inadequate. Dynamic regional policies aimed at encouraging partnerships and increasing the level of skills can help to change this situation.

Table 2. **States spent US$385 million on co-operative technology programmes in fiscal year 1994**

US$ Million

North Carolina	37.45	Montana	2.97
Pennsylvania	34.07	Louisiana	2.65
Texas	30.26	Iowa	2.35
Georgia	29.88	Missouri	1.85
Connecticut	27.50	South Carolina	1.80
Ohio	27.48	North Dakota	1.78
New York	22.88	Maine	1.64
New Jersey	20.30	Wisconsin	1.57
Michigan	14.10	Arkansas	1.51
Maryland	12.68	New Mexico	1.26
Florida	12.60	Alabama	1.15
Kansas	11.10	Kentucky	1.12
Virginia	10.40	Idaho	0.73
Nebraska	8.98	New Hampshire	0.65
Alaska	8.50	Illinois	0.60
Oklahoma	6.69	Oregon	0.44
Indiana	5.90	Wyoming	0.35
Minnesota	5.48	Arizona	0.25
California	5.19	Vermont	0.20
Massachusetts	5.05	Tennessee	0.15
Hawaii	4.61	Mississippi	0.08
Utah	4.29	Nevada	0
South Dakota	3.70	Rhode Island	0
Delaware	3.59	West Virginia	0
Colorado	3.41		
Washington	3.35	**Total**	**384.54**
Federal agencies' expenditures on similar programmes			
Defence	1 101.7	Health and Human Services	133.1
Agriculture	450.8	Energy	72.0
Transportation	349.6	Environmental Protection Agency	56.8
Commerce	233.4	Labour	1.6
NASA	168.6		
NSF	149.4	**Total**	**2 717.0**

Source: "Partnerships: A compendium of State and Federal Co-operative Technology Programs", 1995.

In this area, there is a trend in government policies toward increased decentralisation and regionalisation of technology policies. In the United States, the government is concentrating on creating a more important role for local and State authorities, the goal being to boost partnerships between State governments and Federal authorities (see Table 2). In the European Union, a larger share of Structural Funds should be channelled into R&D and technology under the programme for 1994-99 (the primary goal is 3.7 per cent of spending, with 10 per cent as the secondary objective). In fact, the total amount of these subsidies is often greater than the funds provided under technology programmes, although some technology programmes do have explicit regional objectives (STRIDE, SPRINT)[10]. In France, even though the Paris region still harbours 55 per cent of private research and 46 per cent of public research, regional research budgets have begun to grow, especially through the use of planning contracts. This has helped encourage a certain amount of devolution.

The budgetary and financial context

Budgetary and financial issues have a twin effect on regional economies. First, the public sector, made up of central administrations and local authorities, has a direct impact on regional output through its contribution to overall demand and investment (using government contracts). Second, the central and regional governments implement policies which have an indirect influence on regional affairs. The importance of these policies is lessened in cases where public authorities find themselves hemmed in by tight budgetary restrictions or where taxes are raised.

A measured approach to reducing budget deficits

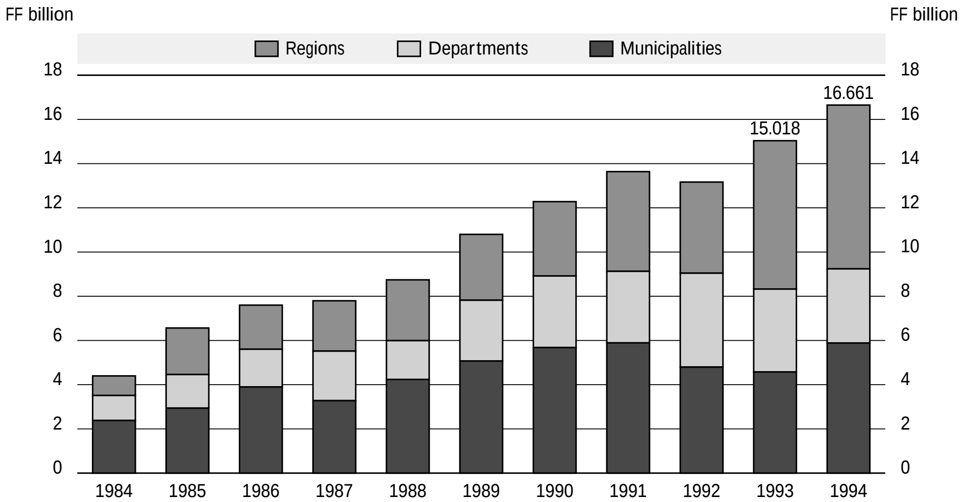
Even though there has been an overall improvement in public accounts during the period under review, only a limited amount of work has been done in the area of reducing budget deficits (an annual cutback in spending equal to only 0.5 per cent of GDP in the OECD area). Among the G7 countries, 1995 budget deficits again exceeded 3 per cent of GDP in Japan, France, Italy, the United Kingdom, and Canada (3.6 per cent on average for the whole OECD area). Turning to the smaller European countries, only Luxembourg met the Maastricht requirements last year (Denmark and Ireland only satisfied the 3 per cent of GDP budget deficit provision). The financial austerity measures adopted by almost all countries have so far proved to be insufficient to make any real dent in government debt levels (particularly in terms of GDP).

Approaches by various Member countries to balancing their accounts differ. Some countries have gone ahead with increases in indirect taxes (e.g., in France, Finland, and Austria) often through VAT increases or direct taxes on income or business activities (e.g., in Sweden and Germany). Some privatisation of public-held companies has also taken place. However, generally speaking, governments have preferred to opt for a slowdown in government spending or even straightforward budget cuts. In Germany, the budget consolidation plan provided for increases in government spending to remain below the GDP growth rate. In Italy, the sheer size of the public deficit forced the government to cut back on recruitment and led to a general slowdown in public sector activity. In Canada, a programme of radical budget cuts should produce savings of US$ 29 billion in government spending over a three year period, and eliminate 45 000 public service positions.

These trends also an impact on regional budgets. Tight budgetary policy filters down to the level of sub-national authorities in two ways. First, regional authorities obtain a significant proportion of their financial resources through transfers from the central government. Second, during periods of budgetary difficulties the gap widens between regional responsibilities and the financial resources provided to allow regional authorities to carry them out. In the United States, for example, a study showed that laws and decrees imposing new duties on the authorities of major cities or requiring them to conform with new regulations without any accompanying measures for increases in funding (Unfunded Mandate) represented a major cause of the deterioration of municipal budget[11].

These remarks point to a certain similarity between the situation and policies on national and regional levels. In fact, in the United Kingdom the proportion of total government spending taking place on the regional level has remained fairly constant over the last few years (around 25 per cent). In Finland between 1990 and 1994, local governments trimmed their work forces by almost exactly the same proportional amount (nearly 11 per cent) as the cutbacks introduced by the central government (elimination of 50 000 local public service positions). In France, faced with more severe budget restraints local authorities began presenting balanced accounts in 1993 but municipalities' spendings for economic assistance increased dramatically the following year (see Figure 4). Finally, in Canada six provinces will exhibit balanced (or in excess) budgets for the present fiscal year.

◆ Figure 4. ***Economic assistance by local governments in France***



Source: French Ministry of Economy, (1996).

Confronted with this withdrawal of central government support, certain regions might be tempted to develop alternative sources of funding. In this area, the room to manoeuvre of a given region depends on its financial history and degree of fiscal autonomy. In France, capital spending by regional authorities (representing 66 per cent of their budget) rose by 11.5 per cent in 1994 at the cost of an increase of 22 per cent in debt levels. As local taxes now account for more than 20 per cent of national income taxes[12] in order to ensure sound budget management there will be a growing need for close monitoring of spending levels.

The differences between individual regional situations and needs vary widely. This tendency is even more strongly marked on the sub-regional level. Per capita debt in urban zones ranges between 1 and 3.5 among France's hundred largest towns. In Germany, the disparities between the economic performances of urban zones have grown since 1990 due to the increase in social costs, more stringent environmental protection measures and a drop-off in tax revenue. In addition, the budget deficit of the major cities grew to over DM 10 billion in 1993 and the debt levels of at least ten of these cities exceeded their annual fiscal revenue by more than 50 per cent[13]. In the United States, more than half of the cities with over 50 000 inhabitants were running budget deficits during the period under review.

Balancing social security accounts in the medium term (retirement and health)

Whatever their present financial situation, all states and regions will be confronted with serious demographic challenges over the coming years. The unavoidable ageing of populations, even though offset in some countries by immigration, will put added strain on the functioning and funding of public pension and health care systems. In this area, OECD forecasts (based on extrapolations of current trends and assuming stability from the beginning of the next century) show that although the impact of this trend on public budgets will vary in size and strike at different times it will nonetheless remain significant for all countries[14]. In Germany, France, Japan, and Italy, social security spending could reach between 15 per cent and 20 per cent of GDP compared with only 5 per cent to 8 per cent in the United Kingdom, the

United States, and Canada. In these last two countries, however, health-related spending could rise significantly given the current forecasts for population growth.

The regional impact of these trends is difficult to gauge. Even so, it is clear enough that the amount of social security funding transferred to various regions for pensions will vary depending on the geographical distribution of the elderly throughout the country. If a large proportion of these elderly people decide to leave the central regions (which are the most economically active but also the most precarious in terms of environmental degradation and deterioration of quality of life) and move to the more underdeveloped regions (rural and other sparsely populated areas), the redistributive effect will be positive on the whole[15] and will help reduce interregional disparities. However, if this population group remains concentrated in the wealthier regions the effect will be reversed. Migrations by the active population must also be taken into account which, depending on their direction, can either lead to a reduction in the amount of funds transferred to regional governments or force central governments to implement costly equalisation measures.

Individual situations differ greatly at the present time. In certain countries the populations of wealthy regions are ageing more quickly. Italy is an example of this trend where the proportion of the elderly is higher in the North. In Germany, however, the economically active South seems to have attracted the younger population, which is also the case for the Paris region in France. Another example of this is Spain, where Madrid and Catalonia constitute the most attractive destinations for the working population because of the easy availability of employment.

There is little doubt that more complex and contrasting geographical models will develop in the future. Nonetheless, we can expect the structures of interregional solidarity to be put to gruelling tests, particularly if the poorer regions are not able to build up the necessary health care infrastructures and offer services responding to the specific needs of the elderly. In many countries these issues are already beginning to arise. For some the coming decade will be critical from this point of view. It is therefore important for regions to stabilise their budgets so as to place themselves in a stronger position to tackle this problem in the middle term.

The monetary environment

The willingness of governments to stabilise their accounts is not only due to the rising costs of managing public finances. This trend is also a result of the imbalances created in financial markets by excessive public sector borrowing. These debts have led to a rise in interest rates and the partial elimination of private firms from certain financing circles. As a result, the gap is growing between potential investments and their effective implementation, growth is slowing as is employment growth.

At a first glance, OECD Member countries have experienced slower growth since the highs of 1994 but this trend has been moderate in character during the period under review. This limited decrease reflected the fear of the markets regarding a return of inflation. In several countries preliminary signs of overheating led governments to tighten their monetary policies. The risk of inflation was also present in countries with a depreciated currency. In contrast, some countries in the European Monetary System enjoyed higher real interest rates than their internal economic situation would seem to justify. This lack of confidence perhaps helps explain the implementation of reform and budgetary stabilisation policies which lack the necessary resolve.

It is difficult to tell whether the volatile nature of short-term rates have had an impact on investment and trade flows on national or regional levels. However, discrepancies between fixed rates over long periods do have appreciable effects. The ongoing appreciation of the yen during the review period (20 per cent over the first six months of 1995 in relation to the dollar) led to a stagnation of the economy (+0.9 per cent increase in GDP forecast for the same year). To a lesser extent, the slowdown of activity in Germany in 1995 was also a result of the increased strength of the German mark. Generally speaking, consistent differences in the prices of certain assets can disadvantage individual sectors or give rise to speculative booms (e.g., the real-estate sector at the end of the 1980s and beginning of the 1990s). When these sectors are geographically concentrated such trends can have a significant regional impact.

The supply of credit also has a significant influence on the development of various regions or sectors. Accordingly, the Japanese Government has introduced a new financial chapter for banks in its last stimulus package[16]. As was pointed out in the 1994 version of this report, the banking system has been strongly shaken in recent years by the recession, high-risk investments and monetary crises. The accumulation of bad debts, the tide of new technologies, and increasing privatisations[17] are now forcing the profession to stabilise its activities. The extremely high number of different banking enterprises operating in countries around the world has given rise to a strong concentrative trend (330 mergers and acquisitions took place in the United States in the first half of 1995). As a result, the number of bank outlets and branches should fall in most countries. Nevertheless, the quality and diversity of services offered to major enterprises and SMEs should be improved by the current restructuring, especially through new forms of competition between neighbouring banks (regional banks) and major banking organisations.

NOTES

1 The expression “discouraged worker” is used to designate an individual who is willing to work but who has given up looking for a job because of his belief that none are available.

2 See in particular: US Department of Commerce (1994), *Competing to Win in a Global Economy*, Washington, September.

3 The country is broken down into nine main regions: the Pacific States (Washington, Alaska, Oregon, California), the Rocky Mountain States (Montana, Idaho, Wyoming, Utah, Colorado, Arizona, New Mexico), the central North-eastern States (Wisconsin, Indiana, Ohio, Michigan, Illinois), the Central South-western States (Texas, Oklahoma, Arkansas, Louisiana), the Central South-eastern States (Mississippi, Alabama, Tennessee, Kentucky), the Southern Atlantic States (Florida, Georgia, South Carolina, North Carolina, Virginia, Delaware, Maryland), the Middle Atlantic States (Pennsylvania, New Jersey, New York) and the New England States (Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island).

4 Registered unemployment at 30 September 1995.

5 See, W.R. Bains and C. Lebur (1994), *Local Economies*, the US Common Market of Local Economy Regions, National League of Cities.

6 The term “regional” is used here in an international sense to refer to regional groups of countries.

7 See, R. Erickson, S. Friedman and S. Lowe (1995), *State Industrial Experts, Expert Promotion Programmes and Exporter Targeting*, Pennsylvia State University, US Department of Commerce.

8 This section is based on information from the European Commission (1994), *Competitiveness and cohesion: trends in the regions*. Fifth periodic report on the social and economic situation and development of the regions in the Community, Brussels-Luxembourg,

9 The ten regions in question are: South east of England, Rotterdam/Amsterdam, Paris/Ile-de-France; Lyon/Grenoble, Region Rhine/Ruhr, Francfort, Stuggart, Munich, Turin, Milan.

10 With this programme, the Commission is trying to help regions define their own strategies for technology transfers and support for innovation. These so-called RITTS procedures (Regional Infrastructure and Technologies Transfer Strategies) allow them to obtain the necessary advice and support to carry out their analyses.

11 See, M.A. Pagano (1995), *City fiscal conditions in 1995*, National League of Cities, Washington.

12 In France, from 1987 to 1993, tax and social security contributions levied by local authorities rose from 5.8 per cent to 6.8 per cent of GDP. At the same time central government taxes fell from 17.3 per cent to 14.7 per cent of GDP.

13 On 1 January 1994, the total debt of the hundred largest French cities amounted to FF 101.4 billion. In Germany, the overall debt for the previous year reached DM 127 billion.

14 In the seven largest countries (excluding the United Kingdom) the dependency ratio (i.e., the ratio of the elderly population to the adjusted working population) should double between 2030 and 2040, reaching peaks of 0.7 in Italy, O.6 in Japan, France and Germany, and 0.4/0.5 in the United States and the United Kingdom. This ratio is not expected to fall significantly thereafter. See OECD (1995), *Economic Prospects*, N°57, June.

15 In low density countries such as Sweden, socio-economic effects related to elderly people moving to sparsely populated regions could be more mixed in nature. First, the taxpayers in these regions have to carry most of the health-care costs for the elderly people since they usually need the health care system more than the average citizen. Second, the demographic structure in rural and weakly populated areas is increasingly biased, with a high percentage of ageing people. In many parts of the country this process continues with the young people moving to the cities, while the senior citizens move back to their region of origin after having completed a life of work in the towns.

[16] This is the fifth stimulus package introduced over the last four years. The total amount of spending effectively implemented under the framework of these packages is equal to $300 billion. This fifth package is particularly aimed at investments in infrastructure and notably includes projects to repair the damage caused by the earthquake in Kobe.

[17] Up until 1994, regional American banks could not do business outside their state of origin.

Chapter II. REGIONAL DISPARITIES

While economic activity growth has resumed more or less steadily in Member countries, most central governments have dramatically changed their regional policy design or are planning to do so. Moreover, the Third Meeting of OECD Ministers Responsible for Regional Policy, which took place in Vienna on 13 April 1994, highlighted the need for the international community to shift to a new model of regional development especially for its priorities, approaches and instruments.

Thus, the traditional goal of reducing interregional disparities was frequently contrasted with an increasing effort by national governments to improve overall competitiveness, particularly in relation to external markets, by developing the inherent potential of different regions. As a result, the traditional focus of regional development on less developed regions has been extended to include all the regions of a country. Local authorities and the private sector played a key role in this process. Direct subsidies have been scaled down and replaced with a wide range of measures offering indirect support through provision of services, advice and infrastructure.

Furthermore the very concept of regional disparities has changed.

> *After two decades of recession, numerous causes can lead to increased vulnerability. Nearly all industrial sectors have fields of activity which are being forced to diversify, with varying regional and local effects depending on the level of diversification within a given geographical area. Since 1989, cuts in defence budgets have created a new category of vulnerable areas which are generally located in less affected regions. Reform of global agricultural policies has also changed the definition of rural areas: the traditional map which included mountainous areas and small farms has been extended to include grain-growing regions where drops in prices and cutbacks in output have had a significant effect. Finally, rising concern for environmental protection has created a whole new category of vulnerable areas made up of the regions most affected by pollution and deteriorating quality of life.*
>
> (Drevet, Jean-François (1995), *Aménagement du territoire, Union européenne et développement régional*, Paris, Editions Continent Europe, p. 106.)

Refining the concept of regional disparities

Member countries must adapt to the advent of more complex disparities which are often intangible in nature. The concrete factors that give rise to disparities do not explain everything. New parameters are emerging and may be the key to our understanding of regional development. Intangible factors (capacity for research and innovation, services to industry, etc.), telecommunications flows, management of distance, etc. are becoming critical, giving rise to an entirely new situation.

In **Austria**, the traditional model differentiating between the Eastern and Western regions gave way to a new analysis taking into account the local provision of services, the amount of business and industrial activity, tourism, and particularly the reform and transformation of transborder areas.

Finland is a prime example of how many parameters must be considered in defining interregional disparities: population, employment, labour, income, productivity, research activities, etc. As a result, the assessment of disparities becomes an extremely difficult exercise.

In **Sweden**, investments in technological infrastructures such as telecommunications have ushered in a new era of land use. Entire service enterprises or sub-divisions of enterprises have been able to leave Stockholm and relocate to more remote areas of the country such as the North without any detrimental effects.

Nevertheless, one important issue remains unresolved -- the continuing attraction of major cities for industry, the service sector, and investment, which threatens to accentuate regional and individual disparities. For example, **Finland** considers that regional development within its borders will progress especially in the Greater Helsinki Region, and in a number of urban centres in the interior which can offer the requisite level of business activity, basic infrastructures, services and expertise.

Finally, the global changes brought about by the end of the Cold War have led the **United Kingdom**, for example, to restructure its defence industries. This has had direct consequences for specific regions which have become eligible for the Selective Regional Aid Programme as a result. A similar trend can be seen in the **United States**, **Canada**, and indeed in most NATO Member countries.

Increasing community integration

For the Member States of the European Union, the progress made towards Community integration has changed the way in which regional disparities are analysed. The Community average is now an important benchmark for measuring a given region's position.

For **Austria**, 1993-94 was a period of activity in preparation for the country's admission to the European Union. The decision to join the European Union has provoked numerous debates on both the regional and national levels, providing an opportunity to carry out a general revision of various aspects of regional policy including regionalisation, approaches, funding, procedures and methods.

Many countries place great importance on co-ordinating their policy with the Structural Funds, in particular the European Regional Development Fund (ERDF) (e.g., France or Denmark). In France, regional economies have to face several challenges including:

- the restructuring of defence industries and dismantling of regiments and related military bases;
- the peripheral location of sites and regions;
- the emergence of distressed areas in urban territories.

Together with national subsidies, EU funds are available to help solve these problems. Objective 2 funds for industrial reconversion have been increased for the 1997-99 period. Additional grants (ECU 100 million) provided under the KONVER programme (dedicated to the financing of alternative economic development in defence-dependent areas hit by military orders cutbacks) are also available. Finally the Commission supported the creation of around 15 special zones in selected sites.

In **Turkey** the government has embarked on a vast programme to bring its regional development policy into line with European guidelines. This country is still characterised by wide and persistent differences between regions. The fight against interregional disparities is a long-term policy priority. In its seventh Five-Year Plan (1996-2000), the Turkish Government has stated its desire, among other policy goals, to reduce existing disparities, especially between rural and urban areas.

Another example is **Portugal**, which has included as one of the stated goals of its Regional Development Plan (1994-99) a pledge to reduce internal disparities, and bring them more into line with the Community average.

Several **European Union** countries have revised their criteria for defining which regions are eligible for aid. These countries referred to Community guidelines and took into account the additional resources now available through the Community's "new" policy for structural funds under the five-year programme for the period 1994-99.

In **North America**, the wholly commercial nature of the North American Free Trade Agreement (NAFTA) excludes consideration of such questions of regional comparisons.

Equal opportunity for all regions

The reduction of regional disparities, which has been the traditional goal of regional policies, still remains an important objective, however the entire field is undergoing far-reaching changes. In several countries, discriminatory policies favouring areas which are purported to be underdeveloped or in decline are giving way to uniform regional policies for the entire country, although aid continues to vary depending on the relative seriousness of local problems and capacities. An equal opportunity principle is being applied to all so that the regions can develop their potential with similar chances. The objective is rather to reduce the basic handicaps of particular territories and the potential gaps rather than to correct disparities resulting from economic activities.

This policy (help for self-help) is to be implemented using an intensive partnership and a bottom-up approach. The creation of special "cohesion" and "interregional equalisation" funds is an important step in this direction. What we are witnessing here is a shift in emphasis away from the concept of disparities toward the concept of performance.

In **Canada**, in a move similar to the abolition by Quebec of the distinction between peripheral regions, central regions and Montreal, Federal regional development programmes now apply equally to all regions of the country, although with some room for adaptation to particular circumstances. Another important development is Canada's policy decision to turn away from the traditional focus on interregional disparities and actively promote the diversification of territorial economies in its place. In addition, the government has decided that the development of regional economies is directly dependent on the success of local SMEs.

This is also the case in **Belgium** (**Flanders**), where the new national regional policy is designed to cover all sub-regions irrespective of their level of development.

In **Austria**, **Greece**, **Italy** and the **United Kingdom**, to name just a few, regional disparities have shrunk. However, the relative growth rates of various regions within these countries can still be considerably higher than those of their neighbours.

This sort of contrast is visible in **Germany** between the new eastern *Länder* and the Western part of the country: per capita income in western Germany in 1994 was double that of the East. Major injections of funds by the West in the East and massive infrastructure projects should gradually correct the situation.

In 1994, this was also the case in **Italy** between the country's Southern regions and the Centre-North, which enjoyed a growth rate twice as high as the south. It must be remembered, however, that certain areas of the south are unrecognisable today when compared with the backwardness of 30 years ago.

In **Spain**, regional disparities remained largely unchanged between 1989 and 1993. Once again, however, this is clearly not the case on a sub-regional level.

Several countries have remained silent about regional disparity trends within their borders, perhaps feeling that an increase in disparities would be interpreted as a failure, and a decrease as proof of the success of their regional policies. Between these two extremes, the spectrum of performance is wide.

The continuing need for regional development assistance

Governments have a long road ahead of them. Methods, goals and priorities have changed. Tight budget restraint has become the general order of the day. Moreover the problems involved in implementing new approaches to regional policy may prove to be more serious than they first appeared. There is a risk that regional disparities may widen in economies that have been revitalised by exports. The list goes on. Despite all this, however, regional activity remains robust, both in geographical and demographic terms.

For example, in **Germany** in 1994 all (100 per cent) of the area covered by the eastern *Länder* and 22 per cent of the population (compared with 30 per cent in 1993) of the Western part of the country were eligible for regional subsidies.

In **France**, regions eligible for land-use planning subsidies (PAT), a programme approved by the EC, contain 41 per cent of the population (23.16 million people). Regions are classified using GDP figures and unemployment rates.

In **Italy**, the percentage of the population which is eligible for regional subsidies is as high as 100 per cent in the Mezzogiorno and 30.8 per cent on average for the Centre-North. The Community's three Structural Funds provide regional subsidies which affect 31.7 million people in Italy (56.7 per cent of the total population). Regional policy has been expanded to cover the entire country, rather than remaining focused on the Mezzogiorno. This change in policy has been phased in since 1992.

In **Portugal**, less developed regions can benefit from a "Regional Aid Scheme" (SIR), which is more advantageous than the regional subsidy treatment applied to other regions. SIR is designed to stimulate SME investment in backward regions, with a view to increasing sectoral policy impacts. Areas eligible for SIR cover most of the territory.

Considerable effort has been put into encouraging business activities in **Sweden**, which is struggling with a problem of low population density in outlying regions. These sparsely populated regions represent 54 per cent of the country's total area and only 7 per cent of the population. Areas with an average population density of 1-5 inhabitants per square kilometre have been classified as top priority areas, and those with a population density of at least 6 inhabitants per square kilometre lower priority areas.

Chapter III. THE NEW MODEL FOR REGIONAL-INTERNATIONAL RELATIONS

The new model for regional-international relations[1] represents an approach to economic relations which recognises the fact that the barriers between regional economies are disappearing as a result of the globalisation of markets and business activities, giving rise to a global economy. More than ever, local and regional development must be understood within this economic context, transcending the borders of any one country.

The globalisation process can take many forms. First, it is reflected in the growth of foreign direct investment (FDI) flows. FDI has increased continuously in the recent past, apart from a short period (in 1991 and 1992) characterised by a severe recession in the OECD area. FDI not only grew steadily during the 80's but its pattern also altered. The decision to invest in a foreign country now depends more on specific corporate concerns such as access to new technologies, proximity of production units to market demand or the possibility to escape tariff or non tariff barriers. In this context, foreign direct investment strategies aiming at minimising labour cost through delocalisation are less predominant than in the past. Second, trade between regions and nations is also developing rapidly, at a speed exceeding the rate of growth of economic activities, thus contributing to the diversification of territorial economic pattern and stimulating competition. Third, OECD economies are increasingly sensitive to innovation in product and processes. This greater market exposure in all sectors leads to accelerating change in manufacturing fabric and the service industry.

The impact of globalisation trends on local and regional competitiveness has been the subject of a study by the OECD Working Party on Regional Development[2]. In the case of mass production industries, the analysis showed that declining regions might have suffered a great deal from production delocalisation, given the high concentration of these industries in regions with a weak economic structure. The study also demonstrated the decreasing significance of these trends in the recent period. Another result is that technology based investment tends to cluster in specific location, while FDI connected with the search for market access remain less geographically concentrated. Within multinational firms, the reengineering of corporate functions (such as R&D, marketing, sales) among different national markets has led to a reconcentration on a limited number of sites.

In this environment, most regions have started to develop autonomous contacts with foreign interests and national governments have begun to review their policies.

> *In terms of national policy, the existence of geographical centres for innovation and production may be seen as highly beneficial for the country as this contributes to its potential for innovation, production, and exports -- in short to national prosperity. However, the effects of globalisation may be less favourable in terms of regional policy. Innovation clusters tend to be located in central or intermediate regions, and direct foreign investment tends also to focus on these more prosperous urban zones. Specialisation, another consequence of globalisation, could also constitute a negative trend in terms of regional policy as it increases*

local vulnerability and can threaten the economically fragile foundations of underdeveloped regions.

(OECD (1994), "Globalisation and Local and Regional Competitiveness", document [OECD/GD(94)13], Paris.)

The positive or negative effects of globalisation on particular regions obviously depends on individual strengths and weaknesses as well as the ability of local enterprises to compete not only with national enterprises, but also (and especially) with foreign companies, now without the protective shield of national borders. Economic growth has tentatively returned, although unequally, in some countries recently, the difference being that this time it is taking place within an economic context which is clearly global, without national borders.

Efficient links between geographically restricted and world-wide networks for innovation and production will probably constitute the key to local and regional competitiveness during the 1990s.

(OECD (1994), "Globalisation and Local and Regional Competitiveness", document [OECD/GD(94)13], Paris.)

Promotion of competitiveness

The international competitiveness of enterprises is the basis for territorial competitiveness and its prosperity. It is, therefore, not surprising that this objective is receiving increasing priority within regional policies. The drive to increase competitiveness places certain demands on regions, and especially calls for the development of new production structures and closely linked local groupings of industrial activities.

Thus Australia, in its new approach to regional development, is committed to developing regional production clusters and encouraging regions to open up further to international trade. Along the same lines, Belgium (Flanders) is striving to encourage the business and scientific worlds to form new networks and co-operate more closely, while Greece is bidding on the creation of industrial parks and measures to encourage SMEs within the framework of the new programmes for the period 1994-99. The United Kingdom has a long history of innovation in the field of industrial groupings. In this field, Sweden allocated some SEK 170 million to the creation of university-industry/SME consortiums 1994 and 1995.

New alliances and new comparative collective advantages are appearing. To a large extent, they are dependent on the resources and available funding of a given locality. Various advantages flow from the geographical grouping of complementary enterprises: the possibility of "just in time" production; easy access to sub-contractors; reduced transactional costs; sharing of other service costs; and rules of origin, notably in North America under the framework of the North American Free Trade Agreement (NAFTA).

The need for a more detailed analysis

However, we cannot ignore the limits of this policy aimed at increasing the international competitiveness of regions using the enterprises located within their borders. Heightened competitiveness alone is insufficient to address the major issues which we are facing:

- marginalisation of entire regions, regional disparities, and socio-economic inequalities which exist on both national and international levels;

- excessive exploitation of vital ecosystems and the damage which this causes (pollution of the seas and waterways, soil erosion, the extinction of various species, etc.);

- concentration of power in the hands of economic entities (multinationals, the new world data and communication networks, etc.) with limited social responsibilities.

It is an accepted fact that liberalisation agreements have a significant impact on the regional level. The successful conclusion of the Uruguay Round has already affected individual regions differently depending on their potential, in particular their economic health and ability to adapt. The pressure on regions will grow as their industries, whether clustered or not, are exposed to direct competition from countries either with low-cost labour or highly productive economies. Production and research processes and procedures will have to be restructured.

The competitiveness of enterprises is largely a function of their ability to develop new products, adopt new processes and procedures, and exploit new techniques and skills. Quality control has become an essential factor.

Competition between regions has been indirectly strengthened in different ways. High technology industries tend to base themselves in regions with a proven potential for innovation, which almost always means those which already have a strong economy. For others, the need for geographical proximity to supply and demand is less of an issue.

The dilemma of underdeveloped regions

All these issues and all these new trends often have a negative impact on regions with structural weaknesses. At the same time, these are the regions which have far more need for investment in existing and new enterprises than others. In these cases, local support of major firms and SMEs is essential. It is no longer a question of saving jobs, but rather of ensuring the survival of local production. In weaker regions, SMEs find themselves at a distinct disadvantage unless they have a proven ability to adapt, a specialised market niche, and operate in a co-operative business context. For many, the real test of competitiveness is the ability to export, which itself depends on the degree of specialisation.

Example of a highly globalised region: the New York and New Jersey metropolitan area

With 15 million inhabitants and a total personal income of some 460 billion dollars, the New York and New Jersey Metropolitan area (NY/NJ) is one of the largest regions in the United States. The area continues to play a considerable role in the financial services, fashion, media, advertising and telecommunications industries.

Traditionally quite open to international trade, NY/NJ obtains a large part of its prosperity from world markets. The positive performances of the international sector (trade and tourism) contributed in the last years to the steady growth of the entire region despite the lack of activity in Europe[1]*. Thanks to the progress of economic activity in the world, the weak dollar and the increase in imports, the flow of merchandise grew by 5.5 per cent in 1995 at port site*[2]*, and 10.1 per cent in airports*[3]*.*

Due to this strong integration into the world economy, the region (consisting of New Jersey, New York City, and ten surrounding counties) is placed in an exceptionally competitive environment which has forced many sectors to restructure. Hence, restructuring is presently taking place in the banking, telecommunications, biomedical and manufacturing sectors, limiting the growth of employment. At the same time, the rapid growth in trade and in the retail sector[4] *allowed a decrease in unemployment from 7.3 per cent in 1994 to 6.8 per cent in 1995, and despite a rise in interest rates which weighed on the reorganisation of the financial sector.*

The recovery has been progressive, having started in 1992, with the effects being rapidly distributed throughout the region. In this region which saddles two states, employment structures in the city and suburbs began to resemble one another, most notably during the last recession. Moreover, the surrounding areas have now developed their own economic centres, mainly in the manufacturing sector, improving the geographical and sectoral diversification of the region.

The competitiveness of the entire NY/NJ region depends more and more on a few "rising" sectors: recreational industries, multimedia, tourism, and international activities. De facto several American regions are in competition to play the leading role as port of entry to the country[5]*. In spite of high installation costs, New York and its hinterland continue to represent an attractive region. If we compare profits generated to level of revenue, the region bypasses the American average in numerous sectors. In the future, the maintenance of this competitiveness will depend not only on continued inflow of commercial and industrial investments, but also on a specific effort to develop infrastructure performance and investment.*

1. Europe represents 40 per cent of the trade of the region with the rest of the world.
2. One third of all maritime trade of the east coast passes through the port of New York.
3. The three airports La Guardia, Kennedy and Newark handle 27 per cent of the air traffic of the United States.
4. Retail sales reached US$ 148 billion in 1995.
5. In terms of job creation, the region of New York had an average performance, 0.6 per cent against +2.6 per cent in Seattle, and +2.1 per cent in San Francisco, or 1.8 per cent in Los Angeles among other examples.

NOTES

1. Catin, M. et Djondang, P. (1992), *Commerce International et économies régionales*, Paris, Économica.

2. OECD (1994), “Globalisation and Local and Regional Competitiveness”, document [OECD/GD(94)13], Paris.

Chapter IV. NEW APPROACHES TO REGIONAL POLICY

As suggested above a new model for regional development is slowly emerging, bringing about change in the following aspects of regional policy. First, major objectives include obtaining a greater participation from lower levels of government and strengthening the territorial cohesion between urban and rural areas. In this context, new groupings of regions which transcend conventional borders prove useful and efficient. Second, in the case of the EU, the growing convergence of Members regional policy is speeding up this trend. Third, these changes parallel a shift in power sharing between the central state and the regions and growing partnerships. Fourth, at the programme level, a conceptualised approach and growing selectivity are required as well as a reduction in direct financial aid. Fifth, in almost all countries, regional policy budgets are declining. Lastly, it is important to understand these trends in the context of continuous decentralisation i.e., of the substitution of power and resources by subnational levels of government.

New goals of regional policy

The fundamental goals of regional policy have changed. The aim is no longer to implement a simple policy of equality designed to boost weaker regions up to the same level as the rest, but rather to create a new environment favourable to renewed economic development. This will usher in a period of growth based on efficiency and potential rather than simply on the disparities between regions.

Several countries have already reworked their approach to regional policy, while others are in the process of changing.

In 1994, **Australia** introduced a new approach to regional development following a hiatus of two decades during which there had been no national policy in the area. A total of 46 regions with development potential were to be created; 27 were formally recognised as of mid-September 1995. The programme strategies for these regions were eligible for some type of assistance under the federal regional development programme (RDP). The new government which came into power in March 1996 decided to cease funding the RDP and to promote a new policy. This policy recognised the existence of disparities between certain regions but, unlike some other OECD Member countries which place great importance on resolving interregional disparities, adopted as its overriding priority the task of maximising the potential of individual regions. This strategy aims at ensuring that regional communities have the support and services they need to build a suitable environment for business and to promote better management of land, water and resources.

In **Denmark**, a detailed report was presented to the government in 1995. This text contains a complete re-examination of regional policy. Emphasis is laid on developing regional industry and employment, decentralisation and partnerships.

Finland adopted a new policy on regional development in 1994. This is a far-reaching reform introducing a subsidiarity rule in favour of municipal authorities and designed to bring Finnish policy more into line with the policy of the European Structural Funds. In fact one of the main goals of this new policy is to balance regional development differences by strengthening production structures, business activities, employment and expertise.

In **France**, the Act of 4 February 1995 on land-use planning and development is the product of wide public consultations which began in July 1993 and continued over the ensuing eighteen months, with input coming from all political, economic, and industrial actors. The Act creates a policy framework for the future and contains a programme of reforms spanning several years as well as a series of measures for immediate implementation. The goals of the Act are defined as national unity and solidarity, which are to be achieved through the principles of equal opportunity for all and balanced land-use development.

During the period 1990-93, **Greece** developed a new Plan for regional, national and community development for the years 1994-1999. As a result, 70.5 per cent of available funds will be channelled into national mega projects, leaving 29.5 per cent for regional projects. One of the priority objectives of the Plan is the financing of major infrastructure projects in the transport and public service sectors. On the regional level, equal importance is attributed to the goals of reducing interregional disparities and maximising the potential and comparative advantages of individual regions.

In **Portugal,** the Regional Development Plan for 1994-99 is being implemented with EU support . Four main objectives have been set: improving employment and labour force skills; strengthening the factors which determine the economy's competitiveness; improving quality of life and social cohesion; and developing the potential and structure of regional economies.

To a certain extent, the **United Kingdom** has opted for a national approach to development with three main components: a regional policy for industrial development mainly directed towards redressing employment differentials between regions; an urban renewal policy aimed at improving the quality of life in urban zones on economic, social and environmental levels; and a rural development policy aimed at creating a stable, productive, and environmentally-sound framework for rural life.

In the throes of a serious budget crisis, **Canada** has made a sudden turnaround and drastically cut its regional development budget, forcing Federal Regional Development Agencies throughout the country to rethink their roles and objectives. SMEs with a potential for growth, the building blocks of regional development, have become a top priority. As a result, a full range of integrated services and strategic resources have been developed for enterprises of this size, although the Federal Government has discontinued direct subsidies to enterprises. Consequently, the creation of partnerships and networks has become indispensable.

On a regional level, **Sweden** has introduced a strong national programme to boost rural development. New legislation was enacted in 1994 and 1995 which focuses regional development objectives on thinly populated rural areas.

In **Turkey**, the entire field of regional development is being reworked. Many programmes continue to be implemented at the regional level, but a real regional policy has yet to emerge. The new approach is a result of the Turkish Government's desire to bring its policies into line with

European Union requirements and pre-requisites, the new touchstone for Turkish policy in the years to come.

New territories of regional policy

There has been a shift to a simultaneous "three-dimensional" approach in this area. The scope of regional policy has now been extended to include not only sub-national territories (regions and sub-regional localities) but also national and international contexts. Socio-economic and trade cohesion within continental and international groupings is increasing steadily, creating new regional divisions which will force regions to adapt. These issues have been discussed in Chapter II (New Trends in Regional Disparities) and Chapter III (The New Model for Regional-International Relations).

Another development is a shift away from the notion of external borders towards the concept of transborder or coastal areas[1]. Transborder regions are often at a disadvantage because neighbouring countries have different social, economic, legal and political systems, which tend to restrict the economic and administrative relations which would normally arise between neighbouring regions. Further, natural and geographical barriers situated on borders can limit transborder interaction and co-operation. Further complications can arise from the existence of artificial barriers created by history or ideological differences. Coastal regions, which are separated from their neighbours by the sea, should also be considered as transborder regions.

The recent extension of the **European Union** to include Austria, Finland and Sweden means that Russia, Hungary and the Slovak Republic must be added to the list of its immediate neighbours. This has considerably expanded the Community's land/sea borders, forcing it to develop a whole new area of economic and administrative relations. The regions of what was formerly **East Germany** must build new relationships with neighbouring areas of Poland and the Czech Republic, this time in a free market context. **Austria** is openly furthering its economic relations with neighbouring areas of Hungary and the Slovak Republic.

Along the French-Spanish and Belgian-Dutch borders, neighbouring regions have roughly equivalent living standards. This is not the case everywhere. Very sparsely populated border regions can be found in Spain, Portugal, Ireland, Greece, and Denmark. Wide differences in living standards exist in these areas.

Inadequate transborder transport systems can also be a source of problems. For example, this is the case along the southern borders of Greece and along the border between Italy and Slovenia. This is also the case along the Mexican border; the North American Free Trade Agreement (NAFTA) is designed to remedy this situation.

In **Canada**, the Federal Programme for "Coastal Development" is aimed at restoring economic prosperity along the coasts of the Atlantic Provinces and Eastern Quebec, regions which were hard hit by the recession and the depletion of the commercial fishing grounds.

Transborder co-operative initiatives have been implemented under the framework of the INTERREG programme. One of the largest of these is the European Development Pole (EDP) bringing together Belgian, Luxembourg, and French authorities to manage the very serious reconversion crisis faced by a border region shared by all three countries (near the Ardennes).

New decentralised actors of regional policy

There have also been changes among the actors in the field of regional policy. Formerly, it was the state which was the first, and often only, actor. Now, central governments function more as a catalyst, adopting the role of leader or partner. Government authorities orchestrate the most advantageous alliances, and arrange for partnerships of all sorts. As a result, a broad partnership between government and industry is emerging. This will necessitate the transfer of skills, new forms of joint financing, and new structures based more on principles of equality than hierarchy. This process must be co-ordinated or the risk arises of funds being spread too thinly or used ineffectively.

Denmark strongly supports the idea of group efforts and co-ordinated initiatives. Within its own borders, the government has identified a large number of actors. On the regional level, there are the Communes/Municipalities, Regional Counties, Technology Information Centres, Employment Offices, Training and Continuing Education Institutes, Customs and Tax Offices, Business Groups, etc. Within the central government there are the Ministries of Industry, Labour, Housing, Research, Internal Affairs, Agriculture, Fishing, Environmental Affairs, Energy, Internal Revenue, Transport, Education and Finance. All participate in the process of regional development. To the above can be added private sector actors such as those involved in projects supported by the Structural Funds and EC programmes in Denmark. This gives an idea of how important the government's "co-ordinating" role has become.

"Do more with less" seems to have become the general rule. "Do more" is not limited to the simple idea of increased quantitative productivity, rather it is a question of new requirements. This involves a shift in perspective.

The current trend is for central governments to adopt a policy of decentralisation and devolution. This inevitably gives rise to debate on the rules governing the sharing out of authority between the different levels of government (national and sub-national) on the one hand, and between the public and private sectors on the other. We are referring here to a subsidiarity principle according to which any act which can be carried out by a public or private authority at a hierarchically lower level must remain on that level. Higher authorities cannot interfere except to ensure that proper legal procedure has been followed[2]. It was this principle which was enshrined in the Maastricht Treaty in 1992[3].

We are also referring here to a partnership principle which gives rise to development projects involving different actors, all directed and co-ordinated by government authorities located on different levels, and also to projects between these authorities and various private bodies and associations. Central governments are being decentralised. In addition, they are encouraging regions to develop their own regional policies.

In **Germany**, the Federal structure has been built around the subsidiarity principle. Responsibility for regional policies is divided between the Federal Government and the individual *Länder* in the so-called "Joint Scheme". Implementation of programmes falls under the exclusive authority of the *Länder*.

In **Belgium (Flanders)**, regional policies are designed from the bottom up. Local authorities assemble a "platform" that groups together all the local actors concerned. This body then carries out all the negotiations with the Flemish Government. Subsequently, the platform prepares a strategic development plan which, from a contractual point of view, will then become the "Regional Charter" defining the distribution of authority and tasks for each of the parties for several years.

In **Canada**, another country with a federal system, two levels of government (the Federal Government and the ten Provincial Governments) share responsibility for different areas depending on their nature. As would be expected, the Federal Government is responsible for issues which affect the entire country and certain issues involving more than one province. The Provinces have exclusive authority over local issues which fall within their borders or affect their inhabitants. In certain areas, including regional economic development, both levels of government have authority and operate simultaneously. As a result, it is important to consider both sets of government authorities when dealing with regional development, an area which is duly divided between the two. Clear partnerships have been established in recent years both to avoid overlaps and unnecessary redundancies and to encourage the development of local authorities.

In **Spain**, the Central Government has shifted more power to regional governments, the Autonomous Communities, in particular granting them a share of tax revenue. In 1994 and 1995, each Autonomous Community received 15 per cent of the taxes paid by their residents to the State Treasury. On 7 October 1993, the Council for Fiscal and Financial Policy formally approved a five-year agreement providing for the development of a financing scheme for the Autonomous Communities based on the principle of shared fiscal responsibility and appropriate implementation procedures.

Certain countries, either because of their recent admission to or membership in the European Union, or because of internal political and administrative changes or trade pressure, have been forced to review the relationship between the national government and sub-national authorities. These sub-national authorities are often led by market forces or international competition to develop more direct and profitable links with foreign interests, even if logic would seem to dictate that this would be the responsibility of the central government.

In **Australia, Belgium, Canada, Finland**, and many other countries, regional authorities maintain links in the international sphere.

In **Austria**, it appears that the *Länder* have decided to bypass the Federal Government. Regional authorities are increasingly active on the international level. They establish relations with neighbouring countries and communicate directly with the European Commission, formerly a prerogative reserved for the Federal Government. At the same time, it is important to avoid wasted effort and redundant programmes, hence the need for the central government to preserve its unifying role as a national co-ordinator and harmonisor of initiatives throughout the entire country.

It is worth stressing once more the importance of this new model which has opened up the field of regional policy to new actors. Today's youth, who will no doubt be actors in this field in the future, are already perhaps actively involved in some countries. **Australia** is attempting to integrate young people into the regional development process. During the review period funds were made available to allow secondary school students to explore the economic potential and activity of their region, and even to participate in local development projects.

In the field of development the key role played by education and training on the regional level seems at first glance to be underdeveloped. However, the Australian experiment cited above and the school/university/SME partnerships mentioned in Sweden, for example, dispel this negative impression. However, much remains to be done. There is a need to place much more emphasis on the mobilisation and adaptation of local and regional educational institutions to support the policies of regional authorities.

New instruments of regional policy

Less progress has been made in the area of the analytical and practical tools used by regional policy-making. The new trend has yet to be fully brought to fruition. The traditional tools are still in place, but many of these are ill-adapted to the new context. The importance formerly placed on quantifiable goals (e.g., income and unemployment) should be reconciled with the new emphasis on other more qualitative issues such as environmental protection, quality of life, education, the rural dilemma, etc. What are the best ways to achieve this reconciliation? How can we integrate and monitor the new international dimension at the regional level?

How do we go about designing new, less financially-driven policy measures providing "immaterial" aid (know-how, entrepreneurial skills, the geographical proximity of R&D centres, farming techniques, etc.)? Should we supply direct or indirect aid? What services can we provide for SMEs to help them remain competitive? Where can we find the financial and technical resources to even begin to resolve these problems in an era of tight budget restraint? How are the costs to be split? What forms of financing should be used?

There is a growing trend to replace direct aid with indirect policy measures. The 1992 OECD report already showed that a shift was taking place away from regional policy measures using direct, automatic and uniform methods toward indirect, qualitative and discretionary methods aimed at modifying the structural aspects of regional economies overall[4]. In the past, there was a move in many countries to abandon large-scale automatic subsidy programmes and replace them with a more selective approach focusing on the development of the industrial and trade environment of underdeveloped regions and urban zones.

This trend is clearly gaining momentum and is reflected in the decision by the vast majority of OECD countries to develop programmes providing indirect support for SMEs, which are now considered as the basic engine for development **(Germany, Belgium, Canada, Denmark, Spain, Finland, France, Greece, Italy, Portugal, Sweden, Turkey, etc.).** Creating a favourable business climate for entrepreneurial activity, strengthening networks among enterprises, supporting joint R&D, developing wide information networks and integrated service centres, improving local infrastructure, encouraging new technology, professional training and retraining, provision of advice and support funding, etc. are all examples of approaches that are being adopted.

In **Germany**, the "Joint Scheme", jointly financed and directed by the *Länder*, still remains the main instrument used by regional policy to provide aid to private investment. However, its scope has been widened to include the provision of advice and expertise (with a per project ceiling of DM 100 000), employee training (with a per project ceiling of DM 100 000), investment in human assets for innovation (up to DM 40 000 for the first year, DM 20 000 for the second) and R&D (with a per project limit of DM 400 000).

Belgium (Flanders) has cut back considerably on direct aid to enterprises: from BEF 16 billion in 1990 down to BEF 6 billion in 1995. The government has clearly opted for a policy of improving indirect environmental factors (infrastructure, technology, training) to help firms control their growth and remain competitive.

Canada has adopted a radical position in abolishing all financial subsidies to enterprises. Business associations have welcomed this initiative. The contribution by the Federal Government to regional economic development is now limited to ensuring that maximum co-ordination exists between Federal bodies, SMEs, and all other local partners.

In **Spain**, changes include new legislation which will form the basis of a genuine policy of decentralisation and a better understanding by the government of the issues which need to be addressed in the job market. A broad package of fiscal, administrative and social measures has been introduced.

As is well-known, the **United States** does not have any national regional policy as such, and instead rely on a series of public policies and practices which are theoretically intended to cover the regional dimension. One example of this is their policy in the technology field. The United States has decided to focus on the R&D aspect of development, pumping a total of US$ 161 billion into this area in 1993 (2.6 per cent of GDP) and pursuing a highly co-ordinated strategy[5]. SMEs have at their disposal an integrated support environment for research and technology transfers. For example, in 1991 eleven Federal Agencies distributed US$ 483 million through the Small Business Innovation Research Program (SBIR). In addition, approximately 1 000 university/enterprise research centres provide SMEs with an additional, extensive network of development and service programmes. In 1993, President Clinton set up the National Science and Technology Council to centralise, rationalise and to bring together, under a single budget, the scattered R&D projects of the different Federal Ministries and Agencies.

In **Finland**, the prevailing climate is one of budget restraint and increased risk. A new Act on aid to enterprises came into force at the beginning of 1994, reducing the previously liberal support provided to companies to cover start-up costs, and focusing government efforts on SMEs. A similar change has taken place in relation to subsidies for transport costs. The relevant Act was amended to reduce the amount of aid distributed from the beginning of 1994. Preferential treatment is given to small firms. Further, "regional funds for high-risk investments" have been operating through the Kera Oy Organisation since 1993.

In **France**, the February 1995 Act on land-use planning and development has introduced some new policy instruments and reformed others. The new National Fund for the Development of Enterprises (FNDE) should promote the ongoing survival, growth and creation of SMEs in priority areas. The Rural Land Management Fund (FGER) provides funding for any joint project helping to preserve and restore the rural environment. New fiscal provisions for priority areas are also in the pipeline which will provide tax reductions and exemptions and lower social security charges. The 1995 Act also set up the National Equalisation Fund to encourage co-operation between regional authorities and interregional groupings.

In **Greece**, successive amendments were made in 1993 and 1994 to Act N° 1892/90 on investment incentives to encourage the development of new products and companies, research activities and modernisation of existing facilities. Preferential treatment is extended to exporting companies, to firms with a high level of know-how and innovative products and to service centres for SMEs. New ventures in the hotel and tourism industries have become eligible for government aid.

In **Italy**, as we have already seen, regional development policy, which was almost exclusively focused on the Mezzogiorno in the past, has been widened to include the industrially depressed zones and underdeveloped agricultural areas of the Centre-North. In 1993, legislative amendments laid down the criteria and procedures to be used for the allocation and payment of any new aid facilities. These subsidies can be granted for the construction of new production facilities or for expansion, modernisation, restructuring, reconversion or relocation projects.

Table 3. **Figures supplied to the OECD on regional development spending, 1993-94**

$ million

	1993	1994	
Germany	–	4 875	$4 375 million went to the new *Länder* in the East, which also received $1 171 million from the EEC Structural Funds. In fact, Germany's western *Länder* only receive a little more than 10 per cent of Federal aid for development. This priority accorded to development in the eastern *Länder* should continue for several years to come.
Australia	–	110	The Australian Regional Development Programme will distribute $110 million in direct subsidies over the next four years, in addition to any funds spent by government ministries on the regional level.
Austria	–		There are no significant changes planned for the period 1993-95, but figures for the overall national budget were not supplied. It is likely that the funds earmarked for regional development will rise in 1995 because of Austria's new access to the Community's Structural Funds, assuming that all administrative requirements are satisfied.
Belgium (Flanders)	–		Belgium (Wallonia) and the Brussels region did not supply any figures. Belgium (Flanders) did not provide a global budget figure, but did provide information on its reduction of direct aid to enterprises, which has fallen from $479 million in 1990 to $203 million in 1995.
Canada	654 [1]	933[1]	The financial and fiscal years run over two calendar years (from April to March). The 1994-95 figure includes expenses incurred through an exceptional series of infrastructure projects, which explains the increase over the previous financial year. Under the Federal Budget introduced on 27 February 1995, the total amount of funds directly allocated to regional development should fall to $607 million in 1996-97, and drop even further to $340 million in 1997-98. The current climate is one of tight budget restraint and drastic cuts in government spending.
Denmark	–	–	
Spain	–	–	
United States	–	–	The United States do not have a national regional policy.
Finland	217	276	This is a global figure and can be broken down into: investment and regional policy subsidies ($112 million in 1993, and $155 million in 1994), regional subsidies for transport ($35 million in 1993, and $31 million in 1994), and Kera Oy ($61 million in 1993, and $90 million in 1994).

Table 3. **Figures supplied to the OECD on regional development spending, 1993-94** *(cont.)*

$ million

	1993	1994	
France	458	474	In 1995, the figure will rise to $553 million, 73 per cent of which ($387 million) will go to FNADT (National Fund for Regional Aid and Development) and 27 per cent ($166 million) to land-use planning subsidies (PAT). DATAR's operating funds have been restructured and globalised to allow more flexible budget management. In addition, increased devolution of authority to Regional Prefects has improved response times. The Fund for Interregional Equalisation has been allocated a budget of $36 million for 1995.
Greece	483	483	What is indicated here is the average amount of private investment from 1993 to 1995 realised under the incentive law. The total amounts to $1 450 million and includes $504 million in subsidies.
Italy	7 640	7 640	The total budget for the five-year period 1994-99 amounts to $38 200 million, made up of 46 per cent from Community sources (Structural Funds), 32 per cent from public sources and 22 per cent from private funds. The annual average for regional expenses should reach approximately $7 600 billion. The Community Support Framework (QSC) will provide the Mezzogiorno with subsidies amounting to $1 763 million for this same five-year period (1994-99).
Netherlands	184	205	
Portugal	–	1 040	This figure is an annual average of spending devoted to all specific regional initiatives (on the 1994-99 period). Public spendings under the Community Support Framework amount to $4 150 million (annual average during the same time period).
United Kingdom	548 [1]	–	The financial year runs over two calendar years. This is a global figure representing all sources and regions combined: Regional Selective Assistance, Regional Development Grants, Regional Enterprise Grants; England, Scotland, Wales and Northern Ireland. Northern Ireland's share of these funds is increasing: $191 million in 1993-94 compared with $143 million and $112 million respectively for 1992-93 and 1991-92. At the same time, the funds allocated to the other regions of the country are being cut back: $357 million in 1993-94 compared with $465 million in 1991-92. To these figures must be added a major input of funds through annual grants for urban and rural development (amounting to several billion pounds sterling).
Sweden	–	–	This represents a reduction in outlay by the Swedish National Government which should be offset by aid from the European Structural Funds. This additional aid is expected to amount to $1 856 million for the years 1995-99. From July 1995 to December 1996 the amount was $547 million.

1. Fiscal year.
Source: Working Group on Regional Development.

Portugal, like a number of other countries, uses not only national policies, which are adapted to fit individual circumstances, but also specific measures aimed at resolving problems in a given region. National policy programmes generally focus on human resource development, major infrastructures, and the manufacturing sector, whereas individual measures deal more with exploiting regional potential, urban renovation, local SMEs, and regional development initiatives.

Lastly, in **Sweden**, the government's Regional Development Fund has been replaced by the ALMI company, with 23 regional subsidiaries, which is responsible for providing advice and support for SMEs. Despite this change of direction, the government still grants a substantial amount of direct aid, especially to priority development regions. Subsidies and loans for localisation, intangible investments, employment, expansion of SMEs, transport, and rebates for social security charges still exist. The Counties also receive major funding for local initiatives.

New sources of funding

In this area, the information provided by Member countries is incomplete and lacking in accompanying documentation. Unlike the preceding chapters, it is difficult to discern any overall trend. Nevertheless, at least in the case of European countries, we can note the willingness of Member countries to follow the regional policy guidelines laid down by the European Union and take full advantage of the Structural Funds.

The table below lists approximate amounts for regional policy budgets and, where necessary, gives case by case explanations. The detail of these explanations is directly proportional to the amount of information supplied by Member countries to the OECD. It would be misleading to attempt any comparisons, as the figures cover different time periods and activities, and some include community aid and others do not.

The current budget squeeze is forcing most national governments to cut back on funding for regional aid. According to the European Commission, Member States can be divided into four different groups depending on their level of regional aid spending. At the bottom end of the scale, **France** and **Denmark** spent less than 0.02 per cent of GDP on regional aid at the beginning of the 1980s.. In the second group, listed in order of importance, the **Netherlands**, **Germany**, the **United Kingdom** and **Belgium** spent between 0.05 per cent and 0.1 per cent of GDP. The third group includes **Luxembourg, Spain, Portugal, Greece** and **Ireland** with regional spending of between 0.4 per cent and 0.6 per cent of GDP. Finally, **Italy** spent slightly more than 1 per cent of GDP on regional aid[6]. These figures do not allow us to draw any positive conclusions about changes in the amount of subsidies. However, there is a trend toward reducing aid or introducing fundamental changes, no doubt a consequence, for some countries, of the increase in Community structural aid.

Regional aid subsidies in Northern Member States of the **European Union** have fallen in comparison with those granted by Southern States. Overall, the most serious cutbacks to regional aid took place in **Canada**.

New approaches to aid administration

There has been a move toward increased administrative subsidiarity and a client-centred approach. As was already noted above, most countries have declared their intention to continue, or speed up, their policies of administrative decentralisation and financial devolution (see Table 4). This is giving rise to new strategies for administrative simplification, increased collaboration and co-operation on all fronts, and a wide range of partnerships. Of course, certain institutional and individual problems unavoidably arise with the introduction of such far-reaching changes. A number of challenges must be faced, including amendments to legislation and regulations, and the harder task of changing attitudes.

Table 4. **Decentralisation of public finances in selected countries**

	Ratio 1[1] Fiscal decentralisation	Ratio 2[2] Decentralisation of expenditures	Ratio 3[3] Fiscal autonomy
Sweden[8]	34	74	84
Denmark[7]	31	69	69
Norway[6]	21	63	60
United States[7]	32	60	71
Germany[7]	28	53	78
Austria[7]	14	33	84
France[8]	10	30	63
Finland[6]	27	71	65
Belgium[7]	5	30	45
Netherlands[8]	3	51	30
Italy[5]	3	48	20
United Kingdom[7]	4	42	30
Australia[7]	18	65	58
Spain[6]	13	50	43
Ireland[6]	3	53	30
Portugal[6]	4	12	56
Mexico[4]	12	17	97

1. Ratio 1 = (Local and Regional Taxes)/(Total National Taxes) $\times$ 100.
2. Ratio 2 = (Local and Regional Expenditures)/(Total Public Expenditures) $\times$ 100.
3. Ratio 3 = (Local and Regional Resources Excluding Subsidies)/(Total Local and Regional Resources) $\times$ 100.
4. 1987.
5. 1989.
6. 1990.
7. 1991.
8. 1992.

Source: Prud'homme, R. (1995), using IMF data.

In **Finland**, the new Regional Development Act, which came into force at the beginning of 1994, clearly provides that "regional administrative authorities" are solely responsible within their respective regions for the development of a regional policy. This includes the design, implementation and monitoring of related programmes, and the administrative co-ordination of different measures. Similarly, the Ministry of Industry and Trade delegated its power to award subsidies to its Regional Affairs Offices at the beginning of 1994. These Regional Offices have also been made responsible for investment aid programmes involving less than FIM 10 million and aid for SMEs. The government has also set up Business Service Centres in the provinces. Four of these centres were expanded, on an experimental basis, to become real, full-time, integrated contact and information centres. Procedures have been simplified as a result.

In **France**, there is a trend towards increased co-ordination between the different levels of policy-implementing authorities and towards a significant devolution of authority to Regional Prefects. Land-use planning policy is defined on the national level by the central government. The policy is then implemented by the national government and regional authorities jointly, with care being taken not to restrict regional administrative freedom or violate the principles of decentralisation. In addition, several consultative bodies have been set up.

In **Italy**, the change from the old system of regional aid, which focused on a limited number of individual regions, to the new national approach, has inevitably given rise to a plethora of legislative and administrative difficulties. Even after the enactment of Act N° 96/1993, problems remain regarding the transfer of authority, the interpretation of new regulations, and procedures. The regions are responsible for the definition of their own development strategies and work in real partnership with the central government and the Commission on the use of the Structural Funds.

In **Canada**, the cutbacks in funding forced all levels of government to simplify their procedures, eliminate overlaps and redundancies, and increase their efforts to co-operate. The approach of the regional aid administration is changing with increasing decentralisation and a clearly more client-based approach (introduction of a "one-stop shop" approach to relations between Federal authorities and SMEs). In Quebec, for example, the Federal Office of Regional Development set up "SME Access Centres" to provide strategic advice to small firms. Such changes are impossible to implement without causing a certain amount of tension within the administration. There is the issue of sharing out responsibilities between various bodies, and the difficult task of changing the attitudes of public servants who are forced, for example, to abandon their role as providers of funds to become advisers and partners for SMEs.

A similar trend is visible in the **United Kingdom, Greece, Finland, Denmark** and **Germany**. These countries have all decided to simplify the procedures governing the allocation and monitoring of aid. Some have gone even further and are in the process of setting up "one-stop shop" integrated services for enterprises.

In nearly all countries there is growing tendency to use a package of co-ordinated programmes and multifunctional initiatives. A good example of such a trend is the empowerment zone and enterprise Communities (EZ/EC) initiative designed to help distressed areas in the United States. Under this initiative, communities, their organisations and firms prepare a strategic plan comprising revitalisation projects tailored to their needs. In exchange, communities benefit from funds to finance their plans. EZ/EC combines financing from several sources: general grant and loans, states financial assistance, local and private sector funds including federal tax incentive and technical assistance from numerous federal agencies and state regional and local institutions. One hundred and eight sites have been selected in a first round in 1994.

In **Spain**, a programme is underway to increase horizontal co-ordination: a Public Investment Committee has been created, and sector-based Conferences have been organised, bringing together central and regional government authorities involved in particular industries or sectors. However, the most important current development in this country is the central government's move to improve regional government involvement in the Commission's regional policy programmes.

NOTES

1 European Commission (1994), *Competitiveness and cohesion: trends in the regions*. Fifth periodic report on the social and economic situation and development of the regions in the Community, Brussels-Luxembourg, pp. 105-115.

2 OECD/ILE (Local Initiatives for Employment Creation) (1993), *Territorial Development and Structural Change, a New Perspective on Adjustment and Reform*, Paris, p. 65. This publication provides an overview of the scope and importance of local development initiatives. There is a long discussion of the growing interaction between local initiatives and regional policies which thus encourages further debate on national development. The text was taken from a report presented during an international conference on local development and structural adjustment which took place in May 1993.

3 The subsidiarity principle was the subject of lengthy debate within the European Community during the negotiating phase leading up to Maastricht. The principle was duly adopted in the Maastricht Treaty in 1992. Since then, it has governed the relations between the Community and Member States. The rule is general in scope and implies that a superior authority should not and cannot act unless a particular goal cannot be satisfactorily achieved at a lower level.

4 OECD (1992), "Regional Policy Development in OECD Countries", document [OECD/GD(92)167], Paris.

5 In the United States, the manufacturing sector is the largest investor in R&D. Investments in research by manufacturing firms in 1993 totalled US$ 109.3 billion, equivalent to 68 per cent of total national expenditure in this field.

6 European Commission, ibid., p. 139.

Chapter V. REGIONAL POLICY-MAKING IN THE CEECS AND INITIATIVES FOR CO-OPERATION WITHIN THE OECD AREA

Macro-economic developments

The four countries of central and eastern Europe (Visegrad Group)[1], Poland, Czech Republic, Slovak Republic and Hungary, have since 1993 continued to achieve important progress in the transition to a market economy. Positive growth, in some cases for the first time since 1989, was the major trend, with Poland and Slovak Republic witnessing the largest increases of close to 5 per cent or more (see Table 5). All four countries saw a significant increase in private sector share in GDP and employment, reflecting to differing degrees the effects of the privatisation process and growth in new enterprises. In the Slovak Republic, the share of private sector in total GDP increased from 32.4 per cent in 1992 to 58.2 per cent in 1994, in the Czech Republic from 27.7 to 56.3 in Poland from 48.2 to 56 per cent.

Table 5. **GDP growth in the Visegrad countries**

Percentage change over previous year

	1993	1994	1995	1996
Czech Republic	0.9	2.6	4.0	5.0
Poland	3.8	5.2	7.0	7.0
Slovak Republic	4.1	4.8	5.0	5.0
Hungary	0.8	2.5	1.0	3.0

Source: OECD, 1996.

This positive growth in the region reflected the results of overall macro-economic stabilisation, a restructuring of trade relations with more concentration on OECD countries, and an increase in investment on the part of both the private and public sectors. In the Czech Republic, growth was due primarily to renewed investment demand of small and medium size firms, fast growth in services and increased demand for consumer goods. In Hungary, it was linked partly to a strong growth in domestic demand in 1993-94, but more directly to an increase in fixed investment. In Poland economic recovery has continued since 1992, and the expanding private sector comprising 59 per cent of employment has largely driven the recent growth. In the Slovak Republic an increase in exports of some 7.8 per cent, accompanied by a fall in domestic demand has been the engine for growth. A concomitant rise in demand in neighbouring CEEC countries, including the Czech Republic, amplified this trend.

During the period under review, this overall growth in output in the Visegrad countries reflected increases in productivity, however, only in the Czech Republic was there an accompanying increase in aggregate employment. The data still do not indicate a direct link between output growth and unemployment in these four transition economies[2]. In three of the countries, high and persistent unemployment continued despite these positive output gains (see Table 6). In the Czech Republic, the one exception, unemployment remained relatively stable at around 3 per cent, and extremely low, even when compared to the OECD average of 7 per cent. Unemployment in Hungary has declined substantially since February 1993 when it reached a peak of 13.6 per cent. The two major labour market problems facing Hungary are the increase in long-term unemployed, and high proportion of youth unemployed. In Poland, although unemployment reached 15 per cent in 1995, there was a decrease in unemployed population due to growth of employment in individual farms as well as more substantial increase in non-agricultural activity. Finally the unemployment effects of the split have been much heavier on the Slovak Republic (18 per cent fall in employment) than on the Czech (5.5 per cent fall).

Table 6. **Unemployment rates in the Visegrad countries**

Per cent

	1992	1993	1994	1995
Czech Republic	3.1	3.0	3.3	3.2
Hungary	10.7	12.8	11.3	9.7
Poland	14.3	16.4	16.0	14.9
Slovak Republic	11.5	14.4	14.5	14.7

Source: OECD, 1996.

With the exception of the Czech Republic, these countries are facing the difficult policy dilemmas brought on by the need to stimulate growth and job creation, while also controlling budget deficits and inflation. The Czech Republic, on the other hand, faced severe pressures on its currency due to large capital inflows, and efforts at sterilisation placed constraints on the domestic financial sector. Annual average inflation for 1994 was 10 per cent, a reduction from the high in 1991 of 56.7 per cent. Such decreases were also seen in Poland and the Slovak Republic. In Hungary, the largely demand driven recovery has been at the expense of large fiscal deficits, and continuous pressure on the currency. Consumer and producer prices recovered in 1994 partly due to policy measures such as increase in excise taxes, and an accelerated rate of devaluation of the forint[3].

A significant change in the system of public finances in the Czech Republic has occurred since the tax reform of 1993 mentioned in the last report. Transfers from the national government dropped dramatically from 58.4 per cent to 27.5 per cent, and municipal revenues from personal income tax have increased from 33 per cent in 1993, to 38.5 per cent in 1994. This change in public finance sources at local level has increased the abilities of municipalities to raise funds. However, the room for manoeuvre to spend on infrastructure development remains quite limited. In Poland, little progress was made in the decentralisation of taxation, and *gminas* (municipalities) retain limited rights to impose certain deductions, exemptions and tax holidays for revenues under the direct jurisdiction of the communes.

As in the past, foreign direct investment continued to play an important role in the transition process through both the privatisation process in some countries, as well as in the process of enterprise restructuring. As seen in Table 7, Hungary, the clear leader in terms of volume of total foreign direct investment flows in the region, witnessed a net decrease of FDI in 1994 (the huge increase in 1994 was due in large part to the partial privatisation of the state telecommunications company MATAV), while the rising value in the Czech Republic seems to reflect the benefits of early completion of the mass privatisation process and a more stable environment for investors. In Poland, changes in the taxation of profits and investments have also contributed to improving this environment.

Table 7. **Foreign direct investment in the Visegrad countries**

US$ million

	1989	1990	1991	1992	1993	1994
Hungary	187	311	1 459	1 471	2 339	1 146
Poland			117	284	580	542
Czech Republic		120	511	983	517	850
Slovak Republic		–400	–100	700	400	1 000

Source: EBRD Transition Report, 1995.

Changing regional disparities

Within this overall context has occurred an increase in disparities between and within regions on the basis of several indicators. Regional disparities in the Czech Republic remained less extreme than in Poland and Hungary. These disparities, nevertheless, continued to develop between old industrial areas and more prosperous diversified areas and urban centres. In Prague, the jobless rate stood at less than one per cent in 1994, and the macro region of West Bohemia at 2 per cent, while Moravia and North Bohemia suffered rates of from 4 to 6 per cent. At the end of 1995, the district of Most had the highest unemployment rate (7.3 per cent). The uneven development of entrepreneurial activity across regions is another area illustrating disparities (see Table 8). There appears to be a positive correlation between the number of entrepreneurs and the level of regional employment, a factor recognised by the Czech Government which has focused regional and employment policies in large part on the promotion of SMEs.

In Hungary, the split between Budapest and the rest of the country has intensified as well as the gap between more prosperous regions west of the Danube, and lagging regions east of the river but to a lesser extent. The review period confirmed the previous demographic trends, with the capital and Northern Transdanubia regions attracting migration inflows, high natural population growth in the depressed areas of North-east Hungary, and depopulation of small agricultural village areas. The growth of unemployment largely concentrated in the north-eastern counties, now extends to the remaining counties of the East. The geographical repartition of entrepreneurship, or new businesses, has also continued to evolve unevenly, with the north-eastern regions, middle Hungarian Plain, internal periphery of Transdanubia and other areas lagging behind Budapest, the north-western frontier regions, and Lake Balaton.

The most pronounced regional disparity in Poland continues to be that of unemployment. The OECD Labour Market review of Poland states that the top unemployment rate of the country was about four times the bottom, and that in the case of local labour markets, this differential could be as high as ten. Areas with the highest unemployment rate (28 per cent) included the agricultural *voivodships* of the north and mono-industrial sites like Wallbrzych. In addition, relatively prosperous *voivodships* could contain patches of high unemployment due to low labour mobility, like Poznan, with an average unemployment rate of 9 per cent, and a nearby town of Gniezno with a rate of over 20 per cent[4].

Table 8. **Number of entrepreneurs and unemployment rate in selected districts**

	No. of entrepreneurs	No. entrepreneurs/ 1 000 inhabitants	Unemployment rate
Prague	233 796	192.1	0.3
Jablonec	11 506	129.7	0.9
Zlin	23 246	117.5	1.9
Karlovy Vary	14 219	115.9	0.9
Trebic	8 579	72.7	5.3
Louny	6 794	78.4	6.9
Novy Jicin	12 223	76.2	7.5
Bruntal	8 838	80.1	6.9
Karvina	18 744	65.6	6.7

Source: Czech Ministry of Economy, 1995.

The regional disparities in levels of unemployment in the Slovak Republic mentioned earlier reflect the continued division of the country into three types of regions. First, regions dominated by metallurgy and mining where severe restructuring is taking place and in some cases, border the industrial regions of the Czech Republic, like the Cadca district bordering the Ostrava-Karvina area. Second, areas dependent on the arms industry which has seen job losses of around 60 000 (Central Povazie, Martin, Vrutky). Third, areas with heavy concentration of agriculture suffering from the highest levels of unemployment (above 20 per cent)[5].

Recent policy responses

Since the last report to the Working Party, the PIT countries have not made significant progress in creating a representative level of government between the municipal and national level for design and funding of regional polices in a truly decentralised manner. Regional policies in the direct sense of the word used in the OECD context have continued to be overshadowed by remedial policies designed to cope with the threat or existence of high structural unemployment in crisis regions.

The challenge for national governments has been, on the one hand, to enhance capabilities for data collection to monitor these changes, while on the other, creating regional policies based on an agreed system of priorities which reflect regional characteristics and strengths. A basic prerequisite for all of these processes is the decentralisation of decision-making power and of resources to lower representative bodies.

Strategic approach

The Regional Development Strategy of the Slovak Republic outlined in a document of the Centre for Strategic Studies (CSS) identified several goals for Regional Policy, including the establishment of an effective and flexible framework for administration of economic mechanisms at the sub-regional level and between regions and the central government, assistance in the development of an export-oriented national economy, and modernisation of the regional technical infrastructures. Instruments mentioned for this purpose include a governmental system of regional credit guarantees and capital formation. Investment in human resource capacities and support for a wider spectrum of education and retraining services are also listed as goals. Finally, the creation of a network of regional information systems accessible to all enterprises and inhabitants has been proposed.

The CSS indicated that regional policy in the Slovak Republic should promote a broad intersectoral approach, avoiding the trap of over emphasis on small enterprise development.

Improvement of infrastructure remains a crucial task in many regions, especially those favouring a strategy based on tourism. It has been proposed to create Regional Economic and Social councils like those established in problem regions of the Czech Republic, these councils could assist in clarifying the screening criteria for selecting recipients for aid, and in enhancing cross-border co-ordination, a central tenet of these policies. An important institutional change that took place in 1995 was the transformation of the Centre for Strategic Studies into a new unit directly responsible to the Prime Minister, called Office for Society Development Science and Technology. It is not yet clear how this new arrangement will affect the above process of creating a regional development policy.

The guiding principals of regional policy in Hungary were restated in 1995 in the national plan. The statement recognises regional differences as a persistent element of the spatial structure of the country, stating that overcoming them should not be the primary goal of regional policy. The economic strength of Budapest is recognised as a positive element that should be used to the advantage of national growth. Disparities are seen to have been decreasing. However, increasing polarisation in terms of unemployment is recognised as the principal obstacle and challenge to regional policy.

The *Draft–Regional Development Act* defines the broad institutional structure for the formulation and implementation of regional policy. It encourages the creation of 19 County Councils for Regional Development responsible for co-ordination of development activities of local governments, social partners associations, NGOs and enterprises. More precisely, these Councils will be responsible for monitoring and evaluation of local situations, recommending development strategies for the county, and conducting financial planning. They are also expected to assist the evolution of Hungarian regional policy to EU standards.

Restructuring and crisis management

In Hungary, the principal actions described in the last report including direct assistance to crisis regions, complementary funding from the Regional Development Fund especially for infrastructure development and various development programmes created by municipalities continued. However, normative allocation of financial support for such programmes was reformed starting with a government decree which cut the number of settlements eligible for support from 1 298 to 543. Active Support for crisis regions continues to be the corner-stone of a limited state regional policy. During the review period, the Ministry for Environment and Regional Policy was still outlining and co-ordinating the broad orientations of regional policy, however, its role was sometimes challenged by other stronger ministries with regionally focused programmes, such as the Ministry of Interior. One important institutional change related to this was the abolition of the Commissioners of the Republic in eight macro-regions. These representatives from the Ministry of Interior at a regional level were responsible for liaising between local self governments and national governments.

The underlying principal of regional policy in the Czech Republic has remained that of supporting regions particularly hard hit with unemployment consequences of restructuring and lack of infrastructure necessary for diversification of economic activities. The main form of support is promotion of small and medium size firms through a variety of tools including credit at favourable rates, credit guarantees, capital allowances through accelerated depreciation, retraining subsidies, public orders, support of information and other means. The PHARE programme has supported the creation of several regional development agencies since 1993 in depressed areas, North Bohemia and North Moravia. These instruments are still implemented largely through the Czech-Moravian Guarantee and Development Bank, and various programmes including REGION and ROZVOJ. A total of Kc 1.4 billion was allocated for support in 1994, and about Kc 1.5 billion for 1995. An effort has been made to move away from automatic dispersions, to eligibility on a discretionary basis.

Problem regions are still defined primarily on the basis of levels of unemployment, and Czech authorities have yet to develop the capacity to create regional indicators such as per capita income. The most important change in regional policies in the review period was the Czech Government Decree No. 148/1994, proposed by the Ministry of Economy, which aims to support four regions suffering from the highest unemployment rates in the country (Bruntal, Louny, Novy Jicin and Znojmo) through an integrated approach involving outlays for infrastructure improvements, employment measures, and support for small- and medium-sized enterprises. Over Kc 150 million have been devoted to this measure, which is a one-time, limited programme. To a large extent, design and implementation of employment policies involve a regional approach as well.

The main focus of regional policy in Poland has remained the support for restructuring in old industrial regions (Katowice, Lodz, Walbrzych), counteracting the danger of permanent structural recession in agricultural regions, and promoting the most attractive towns and conurbations with a view to securing a significant position in the European structures of economic and cultural ties[6]. The Labour fund continued its central role in assisting areas categorised as "crisis" regions. A programme of direct grants for infrastructure investments continued throughout 1993-94, and evolved into assistance separate from the state budget for investments in regions undergoing restructuring, like Walbrzych and Lodz. These grants amounted to 12 per cent of total state outlays in 1994.

Local institutions and instruments

In Poland, indirect aid instruments also continued in the form of tax reliefs and credit guarantees. Incentives for investors were created in areas threatened by high structural unemployment in the form of tax write-offs of 50 per cent on capital expenditures. The list of assisted areas ("threatened by high structural unemployment") grew to 412 in 1994 from 244 in 1992, reflecting an increase from 10 per cent of all communes to 16.7 per cent, and covering 26 *voivodships*.

The council of Ministers approved the latest version of *"Principles of State Regional Policy"* in July 1994, and an amended version was created in June 1995. Some orientations are proposed for programming the policy of spatial development. It includes the growth of the activity of *voivods* and regional self-government, economic and social actors in the field of regional planning and programming; the widening of tax concessions for investors in crisis areas; the launch and intensification of PHARE-STRUDER, one of the first regional assistance programmes of an investment nature: the development of an institutional infrastructure for regional policy in the form of the Polish agency for Regional Development (PARR) and 54 regional development agencies at *voivodship* and local level." Finally, the establishment of a Sub-Committee for Regional Policy and the Development of Rural Areas at the Government Economic Committee will contribute to the co-ordination of actions of the ministries and agencies in the promotion of regional policies. Poland has made a clear policy choice in favour of a "trickle down effect" over a pure redistribution of resources in an effort to reduce regional disparities.

In Hungary, the government deepened its support for a network of public/private autonomous bodies at the county level called Local Enterprise Agencies (LEAs) based on a partnership between county governments, local self-governments, private industry, state enterprises, business association and chambers of commerce, local employment offices and unions. Begun as a pilot project in 1991 with funding from various sources including Phare, the LEA network has spread to all 19 counties and conducts regional development activities in six areas including attraction of inward investment, stimulating the local economy and encouraging self-employment.

The setting for regional policy in Hungary evolved over a very short period. Although the overriding priority remains assisting crisis regions, the support for regionalised instruments and bodies capable of playing a co-ordinating role is proof of evolution. However, there is still no representative level of government between the national and local levels, and it is doubtful that the County Councils for Regional Development can take on this role. Hungary's choice of development towards a highly decentralised state on the one hand, and a strong self-government at local level continues to present a challenge to regional policy formation.

In the Slovak Republic, due to the continued lack of a second level of government and the perceived need for public institutions at the regional level to assist development efforts based on specific regional needs and strengths, some development programmes have evolved with a regional focus at the initiative of municipalities and/or outside institutions. For example a network of Regional Development Agencies (RDAs) was created with the assistance of the United States Department of Labour and strong participation of the municipalities in five sites. In January 1996, four RDAs created the Slovak Association for Regional Development (SARD). Membership is open to all institutions concerned with regional issues. The main goal is to co-ordinate and exchange information and experiences in regional development. Other regionally based programmes are the national support programme for SMEs of the Ministry of Economy which has included the establishment of Business and Innovation Centres and Regional Advisory Information Centres with PHARE support in 13 districts.

Cross-border co-operation and European integration

Since the last report, cross-border co-operation has taken on increased importance in light of positive economic growth and trade between CEECs on the one hand, and the prospects of widening the European Union to include the four Visegrad countries on the other. The accession of Austria to the EU has opened the possibility of PHARE funding for cross-border projects with Hungary and the Czech and Slovak Republic. The debate on extending EU membership to the four Visegrad countries has continued, and the European Commission reported the cautionary results of a feasibility study on the budgetary implications of extending EU Structural Funds and the Common Agricultural Policy to these states.

In December 1994, the Polish and German governments signed a Framework Agreement concerning cross-border co-operation programmes which defines the following priorities: development of efficient transport links connecting border regions, environmental improvement, and stimulation of economic growth on both sides of the border. In addition, the German-Polish Inter-governmental Commission created the Polish-German Business Promotion Society in March 1994 with the objective of promoting economic co-operation at local level through investment projects and development of SMEs. In 1994, the PHARE Cross-border programme allocated ECU 55 million for seven projects.

Polish cross-border co-operation with the Czech and Slovak Republics and Ukraine has been treated in studies undertaken by the respective Intergovernmental Commissions for Transborder co-operation. Such a commission also exists for co-operation with Kaliningrad. Nevertheless, economic co-operation with this Russian region involved participation of more than 300 Polish companies.

As a member of the EU, Austria fully participates in cross-border programmes provided, especially in the combined INTERREG II/PHARE-CBC programmes. It also continued its existing support to eastern Europe through programmes for assistance to SMEs, improvement of environment, and consulting for institution building. Infrastructure improvement between Prague and Vienna, a cross-border business park with Hungary, and energy planning with the Czech Republic represent other crucial areas of Austrian cross-border co-operation.

Greece has developed, in the context of the INTERREG II Programme for 1994-99, projects for transborder co-operation with Albania and Bulgaria involving infrastructure, tourism, energy and human capital improvement.

Although not aimed at Central European countries, Finland's support for cross-border co-operation with the Russian Federation was cited as one of six principal policy measures in the 1994 Regional Development policy Act.

NOTES

1. It should be noted that most of theVisegrad countries now belong to the OECD. The Czech Republic joined the Organisation at the end of 1995, Hungary in May 1996 and Poland in July.
2. See, OECD (1995), *OECD Economic Outlook*, p. 11.
3. See, OECD (1995), *Economic Survey of Hungary*, Paris.
4. See, OECD (1995), *Review of Labour Market and Social Policy in the Slovak Republic*, p. 28.
5. See, OECD (Upcoming), *Transition at the Local Level*, LEED Programme.
6. See, J. Szlachta (1995), *Regional Development in Poland under Transformation,* Friedrich Ebert Stiftung.

Chapter VI. CONCLUSIONS

The economic recovery has spread to most Member countries since 1994. It has resulted in a decline of unemployment and an increase in investment. However, the recovery has slowed down during the second half of 1995, especially in the major European countries. Japanese macroeconomic performances have nevertheless continued to improve while the US economy has maintained, on average, a substantial pace of growth. On the whole territorial economies have benefited from this environment to the extent that the adaptation of production structures was pursued and international trade increased even if in this context regional disparities have probably widened.

Because of growing deficits, governments have been less able to influence regional trends. More severe financial constraints affected their margin of manoeuvre. This may not change in the medium term, given budgetary pressures exerted by social accounts (health, pensions). This more modest role played by the national authorities does not reflect a weakening of the priorities granted to regional affairs. The size of the subsidies involved, the population groups affected by regional policies and the conclusions of the Ministerial Meeting in Vienna all bear witness to their importance[1]. There is even some talk of a division of Europe into regions.

Among the trends identified in this report, one can highlight:

- The increasing tendency in OECD Member countries is to emphasize a regional rather than a national approach to industrial issues. A recent study by the Organisation showed that from all public support programmes to manufacturing industries in the OECD, the share of the programmes with a regional policy objective increased from 21.8 per cent in 1989 to 31.2 per cent in 1993[2].

- The reduction of decision-making at the central level, on the one hand. National governments tend to devolve more power to subnational levels. On the other hand international co-ordination is also becoming more important. As illustrated by the institutional change taking place in the American administration, government needs to be "reinvented"[3].

- The development of new trends toward increased use of the principle of political and administrative subsidiarity. This leads to the appearance of more autonomous, but co-ordinated, programmes, simplified procedures, and a wide range of partnerships facilitating, among other goals, joint financing.

More than ever, regional development must be understood within a global economic context transcending individual national boundaries. In Europe, the principles and methods underlying the Community's structural policy clearly reflect a national approach to regional policy. In a number of countries, it is likely that the increase in exports will help revitalise stagnant regional economies. Governments now increasingly stress regional competitiveness and the ability to create "strategic" jobs[4] rather than regional disparities.

The current economic climate is one of budgetary restraint and an ongoing quest for improved cost-efficiency. This has led to a switch from direct aid to indirect support for the business environment, and also to a contractually-based approach.

Finally, the importance of urban areas is slowly being understood, there is a need for a truly "territorial" approach to regions. This new approach will be made up of fully integrated, wide-ranging policies covering regional, urban, rural and local development.

NOTES

1. Regional policy is also increasingly a concern for non-Member countries. For example, China has recently included the reduction of regional disparities as one of its main economic objectives. The main preoccupation of the authorities is to diminish the economic gap between the coastal regions which enjoy high economic growth and the poorer western and central regions. The Government involvement aims at increasing self sufficiency, developing infrastructures and encouraging interregional co-operation. In order to attract foreign direct investment towards these territories, the Chinese authorities might eliminate the fiscal incentives previously granted to investors in the coastal area.

2. See OECD (1996), “Public support to industry. Report by the Industry Committee to the Council at Ministerial level”, document [OECD/GD(96)82], Paris. See also OECD (1994), “Recent Trends in Regional Policy in OECD Countries”, document [OECD/GD(94)37], Paris.

3. See, John Heinz School of Public Policy Management, Carnegie Mellon University, US Department of Commerce (1995), *Re-examining the federal government’s role in the local/regional economic development process under the new American federalism*, March.

4. The expression “Strategic Jobs” is used to designate various occupations held in firms and organisations by the technical personnel officers (engineers, scientists, technicians), marketing (manager, salesman) and finance employees. In France, a study has shown that in cities when the share of these jobs has been inferior to 4 per cent of active labour force between 1982 and 1990, population declined by 3 per cent. Conversely, towns where this share stood between 6 and 8 per cent enjoyed a growth of 8.6 per cent of their population.

Part II. MAIN FEATURES OF COUNTRY POLICIES

Synthesis of National Regional Policies, 1995

Australia
Austria
Belgium
Canada
Czech Republic
Denmark
European Union
Finland
France
Germany
Greece
Hungary
Italy
Japan
Korea
Mexico
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
United Kingdom
United States

AUSTRALIA

Following the change of government in March 1996, the Ministry of Transport and Regional Development announced in July 1996 that no new project would be carried out on the basis of the previous government's regional development programme. The efforts made by the new government will concentrate on the promotion of regional development through the policies and programmes of the full range of government agencies which impact on regional Australia.

1. Institutional framework

The federal government has played only a limited direct role in regional development over the past 20 years. However, in the early 1990's, the government commissioned a series of studies on ways of maximising the economic development potential of Australia's regions. These studies resulted in the introduction of the Regional Development Program in July 1994.

Approximately 45 Regional Development Organisations (RDO's) were set up in the regions and supported by the Commonwealth government to develop and implement economic development strategies for their regions. The Programme stipulated that it was for the regions themselves to define their future, adopt the best approach and build the appropriate partnerships to meet their needs. Following the change of government in March 1996, the new government believed that the establishment of the RDO's unnecessarily duplicated regional development structures that had already been established by other levels of government. Therefore, it decided not to provide direct funding for new projects sponsored by RDO's, but projects funded by the previous government are being completed.

2. Main orientations

Both approaches aim to maximise the economic potential of all regions of the country, but follow different strategies.

The former Regional Development Programme had three main objectives:

- to help the regions structure their regional organisations and to define and implement their strategies (support and promotion projects);
- to help the regions to optimise the use of regional infrastructures, identify the needs and priorities in this field and, where necessary, build new infrastructures;
- help regional development agents and actors in the field with information, advice, training and innovation.

Geographically, some 45 regions were identified under the programme. No frontier as such was imposed on them; they were determined on the basis of territorial and demographic criteria, economic and administrative criteria or commitment and efficiency criteria. International competitiveness was also an important factor. The regions have had to adjust their strategies to the new opening up of international markets (globalisation of trade) as well as to the demand of other regions of Australia (domestic market).

Recognising the significant impact on regional Australia of programmes and policies of other government portfolios (for example the primary industries, and the employment and industry portfolios), the new Australian government is developing a "whole-of-government" approach to regional Australia. This approach is reflected in the establishment of the Ministerial Working Group on Regional Affairs, which provides a forum at the most senior levels of government for the needs of regional Australia to be addressed in a co-ordinated way.

3. Financial resources

A sum of A$ 150 million for a period of four years (1994-98) has been allocated to the previous Regional Development Programme.

The Programme was a complement to measures taken by a number of other ministries: tax incentives; pooled development funds; Treasury Bonds for infrastructures; the establishment of "Ausindustry" centres offering one-stop shopping for business people interested in government industrial aid programmes; the consultative arrangements of the Ministry of Employment, Education and Training; the Rural Adjustment Scheme, etc.

These complementary programmes remain in place, and the government is focusing on improving their co-ordination to maximise the impact of all programmes on regional Australia. The government has also introduced major new programmes in telecommunications (A$ 250 million), the environment (A$ 1.25 billion) and infrastructure (A$ 1 billion) that will be of significant benefit to Australia's regions.

4. Trends

The new government's approach seeks to maximise the impact of all programmes and expenditure in regional Australia. This "whole-of-government" approach is considered to offer Australia's regions better access to the full resources of government to further their economic and social development.

AUSTRIA

1. Institutional framework

Austria is a federal state with three tiers of government: the federal government, 9 regional (*Land*) governments and some 2 300 local administrations.

For this reason, regional development is a responsibility shared between different tiers of government in the first place, and then with other regional institutions. There is no central authority formally responsible for the organisation of the different actors other than the "Austrian Conference on regional planning" (OROK), set up in 1971 to harmonise and co-ordinate the actions of the different bodies involved. The Conference works on the basis of a common framework, the "Regional Planning Concept".

Austria's entry to the European Union has reinforced the need for co-operation between the two main levels of government in order to better meet the needs of the regions. A good many working groups were set up to prepare for membership of the EU and the Land level has emerged stronger than before.

2. Main orientations

The regional planning programme introduced in 1991 seeks essentially to consolidate the economic structures, resources and potential of the regions. Priority is given to questions of land use and conservation of the environment and scarce resources. Also important are the questions of opening up to international trade and of transfrontier co-operation.

This 1991 objective of restructuring the regions differed from that of the 1981 programme which was then to reduce the regional imbalances affecting in particular industrial areas in decline and the rural world.

Two major events are at present influencing regional policy and its evolution: the impact of membership of the European Union (adaptation to the objectives and procedures of the EU in regional policy matters) and the new and normalised situation obtaining at Austria's frontiers (new opportunities in the frontier regions thanks to the opening of the frontiers and the far-reaching reforms in the neighbouring economies in transition).

Regional aid has shifted from automatic direct subsidies to indirect assistance in the form of information, advisory services, technological promotion and infrastructures, to the benefit of the less favoured regions in particular. There seems to be no explicit orientation of regional policy in favour of SMEs, though the facts appear to speak in favour of increased interest in small firms and the creation of new enterprises.

A technological innovation grant was jointly instituted by the two main levels of government. This is aimed at revitalising old industrial regions and reviving the economies of peripheral regions. An infrastructure development grant is under discussion. This would aim, in the spirit of indirect assistance to enterprises, at endowing the regions with appropriate and attractive facilities for the development of private business undertakings.

The Federal Chancellery programme for "Endogenous Regional Development" has been adapted to the European Union objectives, and aims, for the period 1995-99, to financially support regional information and co-operation networks, the preparation of regional studies, joint local development initiatives and the setting up of regional management structures.

In addition to the activities of the federal government, several *Länder* have developed their own regional revitalisation policies and programmes.

3. Financial resources

The budget allocated to regional development has remained much the same in recent years. The admissibility criteria have nevertheless become more stringent. The loans granted for regional development purposes had an overall budget of Sch 2.3 billion for the period July 1989 to June 1992. The subsidies granted to enterprises amounted to Sch 1.13 billion for 1992.

The programme for the revitalisation of old industrial regions and the revival of peripheral regions, introduced in 1990 and extended to the end of 1995, has spent more than Sch 482 million on over 145 projects.

4. Trends

Adaptation to the rules and regulations of the European Union will continue to govern Austrian policy for some years yet.

The traditional rural development aid initiatives will no doubt need to be stepped up to counter the competition effects inherent the common agricultural policy. Similarly, transport policy will have to be reviewed as a result of the massive increase in transfrontier traffics. Questions of environmental protection will certainly arise with the development of these transit routes.

The Regional Planning Concept introduced in 1991 was reviewed in 1996 in the light of the initial impacts of Austria's membership of the European Union.

BELGIUM

1. Institutional framework

Over the past decade the institutional and administrative trend in Belgium has been for the decentralisation of powers, the regionalisation of the territory and the federalisation of the regions: there is now a federal Belgium with three socio-economic regions (Brussels, Flanders and Wallonia).

In 1980, the management and funding of regional policy was transferred to Flanders and Wallonia. In 1988, these two regions also became responsible for industrial policy. In this same year, the Brussels region was also given specific regional status.

Belgium thus has not one but several regional policies. The regions of Flanders and Wallonia each pursue a particular industrial and regional development policy, managed by their respective legislative and executive structures.

The central government nevertheless retains certain prerogatives connected with the economic and monetary unity of the country and with respect to engagements negotiated with the European Union. But the central government no longer intervenes in the formulation of regional policy objectives or strategies.

2. Main orientations

The regional policy objectives set by the regions of Flanders and Wallonia are aimed at reducing sub-regional disparities.

These two regions each have both direct regional aid, essentially financial and fiscal, granted to enterprises, and other indirect aid of a co-operative type affecting the environment in which enterprises work and the productive fabric of the region.

The local entities constituted by the SDR (Regional Development Companies) in Flanders and the Intercommunales in Wallonia are responsible for the mobilisation and integration of local decision-makers and actors. These entities, in both Flanders and Wallonia, are oriented towards giving advice to SMEs on such things as technological innovation, products, processes, management, access to the financial market, etc. In addition, "Enterprise Centres" have been developed in both Flanders and Wallonia to provide enterprises with a range of integrated services and to promote partnership.

In Flanders the regional policy orientations come from the base, each sub-region being called upon to set up a "regional platform", a sub-regional structure bringing together the existing forces of the area for the purpose of co-operation. These regional platforms have to formulate strategic development plans, on the basis of which they and the Flemish government draw up "regional charters" which include funding arrangements.

3. Financial resources

The recent decentralisation of the administration of direct aid to investment and the development of indirect aid in the form of support for the productive fabric of the regions through the normal budgets makes it difficult to evaluate the total resources allocated to regional development.

The investment aid granted each year by the regional governments is something in the order of BF 6 billion, thus a total of some BF 12 billion a year. In 1992, new rules were introduced in Wallonia eliminating soft loans in particular. In Flanders too, direct aid to investment by enterprises has been sharply reduced: BF 6 billion in 1995 as against BF 16 billion in 1990.

4. Trends

The trend towards an increasingly decentralised and co-operative discretionary model, less concerned with direct aid to enterprises than with improving their environment and the general business climate, is continuing. The regional disparities in per capita GDP in Belgium are not particularly great, but it would appear that the differences between the regions are tending to increase. The tendency towards further budgetary restrictions is confirmed.

CANADA

1. Institutional framework

In Canada, the federal government's approach to regional development is "differentiated". It is based on regional resources and specificities and the development priorities and objectives of each of the major regions of the country.

The federal bodies responsible for the implementation of regional policies are grouped under the portfolio of Industry Canada. The principle regional agencies include:

- the **Atlantic Canada Opportunities Agency (ACOA)**, created in June 1987 which covers for four maritime provinces in the East of the country: Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick;

- the **Department of Western Economic Diversification (WD)**, created in August 1987, which covers the four provinces of Western Canada: Manitoba, Saskatchewan, Alberta and British Columbia;

- the **Federal Office of Regional Development - Quebec (FORD-Q)**, established in June 1991, which co-ordinates federal support initiatives for the regions of Quebec;

A much more modest programme, the **Federal Economic Development Initiative in Northern Ontario (FedNor)**, established in July 1987, which covers Northern Ontario.

Each of the federal agencies constitutes an independent ministry, located in the region and headed by a Secretary of State from that region who reports to Industry Canada. Each agency has a Co-ordination Bureau in Ottawa, the national capital.

2. Main Orientations

The federal strategy is to adjust its intervention to each of the regions, taking account of the regional development priorities and objectives and take advantage of the regional potential and resources.

Eastern Region, Atlantic Canada

The aim of the ACOA is to work with the people of the region to improve the economies of the different communities through developing enterprises and creating employment opportunities.

The main tools of the ACOA are the “Action Programme”, under which financial support is given to SMEs, and the “Co-operation Programme,” through which partnerships are established for the implementation of federal-provincial projects to promote the economic growth of the maritime provinces.

A recent study of federal programmes and new arrangements for the 1995 budget have led ACOA to suppress direct subsidies to firms and to focus its initiatives more in accordance with the business climate and the background of SMEs; ACOA has encouraged the development of partnerships, a pan-regional team approach to better defend and represent the interests of the region.

Central Region, Quebec

In Quebec, **FORD-Q** formerly based its action on the "Canada-Quebec subsidiary agreement on the economic development of the regions of Quebec", signed in June 1988 and terminated as recently as 31 March 1995. The aim of this agreement was to establish a programme of activities meeting the particular needs of the regions of Quebec (regional disparities) and set up a flexible and effective federal-provincial management and co-operation mechanism to implement it.

The FORD-Q has now globalised its programmes and removed the former discrimination between peripheral “resource” regions and central “manufacturing” regions. The 1995 budget has led it too to adopt a new programme centred on SMEs, with three lines of action: aid for innovation, R&D and design; aid for market development; and aid for entrepreneurship and the enhancement of the business climate. The number one priority of the Secretary of State responsible for the FORD-Q, appointed in February 1996, is the SME.

Traditional aid in the form of subsidies is being superseded by the programming of activities and services: information and advice, economic guidance, and supplementary economic support. Thirteen regional bureaux, (known as “Small Business Access Centres”) act as direct contacts for the SMEs of each region, providing them with a wide range of federal programmes and services. “Small Business Access Centres” group all of the federal services available to SMEs under the same umbrella.

Western Region

The mandate of WD is the development and diversification of the Western Canadian economy and the defence of the region's interests at national level. Its action has consisted essentially of creating and promoting enterprises, encouraging the development of new products, new technologies and new markets, notably for export. Above all the aim was to promote business, optimise a potential, and not to combat regional disparities.

In Western Canada, WD based its action around two important elements: the “Programme for the diversification of the economy of the West” aimed at attenuating the cyclical nature of the region's economy, highly dependent on resources; and the federal-provincial partnership agreements in sectors of mutual interest, with shared funding.

The WD Programme has also shifted in the direction of replacing its direct aid to business by pan-regional strategic initiatives, financial alliances, community development, the delivery of integrated services to enterprises, in particular SMEs, and the promotion of the region's interests in public markets and in national policies.

3. Financial Resources

There are many different programmes affecting regional development. We would point out immediately that federal government expenditure expressly devoted to this field is modest and generally connected with a more restricted range of programmes and policies, usually in the context of programmes of aid to businesses, implemented by the federal government, and shared cost initiatives under federal-provincial development agreements.

In 1994, the federal government instituted a large-scale infrastructure development programme: C$ 6 billion over three years, equally divided among the three levels of government (federal, provincial, and municipal). Although these funds are not explicitly directed toward regional development as such, they are being managed by the regional agencies together with the provinces.

The deteriorating economic situation following the recession of 1990-91, together with the subsequent budgetary constraints and the concern aroused by the size and rapid growth of the national debt, had a considerable effect on all federal government programmes, including those devoted to regional development. Programmes were reviewed and budgets were reduced. Budgetary expenditures allocated for regional development amounted to some C$ 847 million in 1993-94, and rose to C$ 1.2 billion in 1994-95 and to more than C$ 1.3 billion in 1995-96. The increase over the past two years is the result of transfers made under the new infrastructure development programme. In reality, funds allocated directly to regional development have diminished markedly since 1995.

4. Trends

A climate of budgetary constraint and drastic cuts prevailed from 1993-96, the corresponding period for this three-year study. Marked financial caution still prevails today. This obviously tends to limit the flexibility of programme activities, but on the other hand it induces decision makers to seek opportunities for innovative and better-defined intervention in collaboration with their provincial partners.

As a result, the regional development agencies had to innovate and turn towards integrated services rather than provide for costly programmes. New partnerships are emerging, as well as increased co-operation between research centres and businesses, and between agencies and banks. The next three-year analysis is fully expected to provide a clearer picture of these trends as well as the policy changes adopted by the federal government and regional agencies faced with globalisation and North American economic integration.

CZECH REPUBLIC

1. Institutional framework

The basis for the formulation of regional policy are the Principles of Regional Economy Policy approved by the Czech government in 1992. Institutional responsibility for the implementation of this policy rests with the Ministry for Regional Development, which carries out analyses of the economic level of districts and proposes the demarcation of so-called economically problem areas to be approved by the government. This category covers structurally depressed areas whose industrial base requires restructuring and economically weak areas with lower standards of living mainly in agricultural areas.

No comprehensive, general regional development plan is being prepared in the Czech Republic so far, and the bodies responsible for investments in the regions are the branch ministries concerned. The transfer of funds from the State Budget to the budgets of the municipalities, communities and regions (districts in the Czech Republic, with District Councils as state administration bodies -- in the absence of a regional self-administration system) does not have the character of regional economic support, and the administration units obtain the funding regardless of the specific economic situation in the particular district.

With the help of PHARE, three regional development agencies were established in 1993, 1994 and 1996 for three depressed areas to help them with the restructuring of their industrial base-- one in North Bohemia (Most) and two in Moravia (Ostrava, Olomouc). These agencies should develop activities facilitating the use of all the positive factors in the three regions and attract new investors.

2. Main orientation

The main orientation in support of regional development and concrete regional policy measures are closely linked to the relatively great homogeneity of the territory of the Czech Republic.

As an example, the regional differences in unemployment levels recorded on 31 December 1996 were: the Czech Republic as a whole 3.5 per cent, with the most adversely affected district of Most 9.4 per cent, and the least affected area, the capital Prague 0.4 per cent. These figures are far below the usual values recorded in much more advanced OECD countries.

In spite of these figures, regional economic policy activities are continuing in order to help the distressed regions. Each year funds are earmarked in the state budget to support small and medium-sized businesses (in 1996, 1 billion crowns and 1,2 billion crowns for the year 1997). In this framework, support to problem regions is provided through the REGION Programme combined with other basic programmes START, ROZVOJ, REGENERACE and SPECIAL. Since 1992 about 50 per cent of these funds were earmarked for this programme, which in 1995 amounted to

750 million crowns. The support is granted as coverage of a part of the interest on loans for individual projects launched in regions with economic problems.

Support of infrastructure projects is considered an instrument of supporting regional development. In practice, however, this support is granted ad hoc, i.e., from case to case. A government measure was adopted only once, in 1994, for districts with the highest unemployment levels (Bruntál, Louny, Nový Jicín, Znojmo). Measures oriented towards the support of business, development of the infrastructure (communal, transport and ecological) and investments in active employment policy have been effective and unemployment in those regions has declined.

The support of cross-border co-operation in the framework of the PHARE programme, specifically the CBC programme, is positive. Contributions to the support of the infrastructure in districts adjoining the Czech Republic border with EU countries (Germany, Austria) help towards levelling out the conditions on both sides of the border. The territorial expansion of this assistance to cover other regions in the Czech Republic, especially those with economic problems, would prove positive. The PHARE CBC Programme was granted 170 million ECU. The amount of 125 million ECU was provided for projects involving Czech-German co-operation and the amount of 42 million ECU was provided for Czech-Austrian projects. The balance is to be used for trilateral projects through the INTERREG Programme.

Regional disparities have been reduced by active employment policy measures applied in problem areas with the highest unemployment levels. In those areas, where some 23 per cent of the population live, about 40 per cent of the fund is used for creating employment in the framework of public benefit projects and 60 per cent for socially effective jobs.

Other elements which influence regional disparities in a number of OECD countries are also found in the Czech Republic, irrespective of regional contexts. Much depends on the approach of the central authorities concerned and on the activities of local government bodies, as well as regional (informal) special-purpose associations. There is so far no national regional policy in areas such as the development of information technologies, tourism and exports.

3. Financial resources

Financial resources devoted to regional development are not monitored in the Czech Republic as a separate indicator, with the exception of funding to support small and medium-sized businesses. These resources are managed by the ministries concerned and their drawing, with only a few exceptions, is not concerned with regional dimensions.

4. Trends

Work on the Czech Republic’s regional policy concept is still continuing. This is in agreement with the social transformation process aimed at the creation of a standard market environment. In comparison with standard market economies, macroeconomic issues and factors play an above-average role, which reduces the importance and recognition of the need for a regional economic policy. The formulation of a more comprehensive regional policy is prevented by a) the problem of creating higher-level self-administration units, which is still pending, and b) from a pragmatic viewpoint, by the relatively small inter-regional differences in the levels of their socio-economic development in comparison with EU countries, as well as with other Central and

East European states. In the near future, work will begin to adjust regional statistics, but for the time being it is not possible in the Czech Republic to ascertain the levels of regional GDP or income levels and use them for an evaluation of the character of regional differentiation comparable with that practised by EU.

(Note: The Czech Republic came into being on 1 January 1993 after the disintegration of the former Czechoslovakia.).

DENMARK

1. Institutional framework

The Ministry of Industry (Copenhagen) and the Danish Agency for the Development of Industry and Commerce (Copenhagen/Silkeborg) are the institutions responsible for regional policy.

A decentralisation exercise is under way, transferring power to the counties and municipalities and calling on them to become real catalysts, centres of authority for local development, creating an environment favourable to the growth of enterprises, providing services and advice to SMEs and leading projects and promoting partnerships.

2. Main orientations

In 1995 the Ministry submitted to the government a voluminous "Regional Policy Report 1995" (*Regionalpolitisk Redegøfrelse 1995*). The report presents new orientations on aid to enterprises, the emergence of an industrial and entrepreneurial regional policy based on the small and medium-sized enterprises located in regions. The report stresses the importance of developing enterprises, employment, decentralisation and partnership.

The document is an argument in favour of greater decentralisation to the regional counties and municipalities, with particular emphasis on the simplification of regulations, support infrastructures, technical and advisory services to SMEs, cohesion between the public and private sectors, and training.

It also suggests that the network of Technological Information Centres (TIC) should be reinforced so that they can become first level service and advisory authorities while still remaining light and flexible structures well adapted to the realities of the regions.

The report also places emphasis on the setting up in the regions of central contact points to provide relevant information and integrated delivery services. There are many actors in the regions, as at central level; it is essential that good co-ordination of effort should be maintained.

Many municipalities already have entrepreneurial strategies and many local institutions already exist. All this potential should be used efficiently. Co-operation between the public and private sectors should also be further encouraged.

The Danish Government is in fact already trying to improve the co-ordination of the initiatives launched by the municipalities to develop trade and industry.

The importance of the EC Structural Funds is duly analysed, notably the role played by the European Regional Development Fund (ERDF). In recent years Danish regional policy has in fact been conducted in close co-operation with the ERDF. In the opinion of the authors of the report, this importance should increase still further due to the extension of the eligible fields and the resources of the EC.

The efforts made in the context of Danish regional policy are concentrated in particular on the modernisation of the regions of North Jutland and the island of Lolland, chosen in concertation with the European Commission.

3. Financial resources

The amount of aid to regional development from ERDF and central government in 1995 and 1996 was in the range of Dkr 300 million per year.

Adding to these figures, the cofinancing of the Technological Information Centres (TIC) has been in the range of DKr 60 million in 1995 and 1996.

	DKr million
States	43
Counties	12
Local authorities	2
Other (private)	4

Source: Ministry of Industry, 1995.

4. Trends

It seems clear that aid to regional development in a Danish context in the next couple of years will continue to develop in close liaison with the European Regional Development Funds.

The implementation of the analytical report on regional development submitted to the government in 1995 will necessarily lead to new legislation, the broad lines of which are already emerging (decentralisation).

EUROPEAN UNION

1. Institutional framework

Realisation of the regional objectives of the European Commission (EC) is for the most part based on the Community's "Structural Funds" managed by the EC:

- the European Regional Development Fund (ERDF), created in 1975, whose action, limited to disadvantaged regions, mainly comprise productive investments, infrastructures and the promotion of SMEs;

- the European Social Fund (ESF), whose action is centred on vocational training and aid to recruitment;

- the European Agricultural Guidance and Guarantee Fund (FEOGA), which supports the adaptation of agricultural structures and regional development actions;

- the Financial Instrument for Fisheries Guidance (FIFG), created in 1993, which supports the adaptation of the structures of this sector;

- the Cohesion Fund, instituted in 1994 to complete the action of the four main Structural Funds, provides additional funding to countries whose per capita GDP is less than 90 per cent of the Community average (i.e., Greece, Portugal, Ireland, Spain).

The ERDF is the Fund which directly covers regional development, but the others may intervene in parallel. There is thus an integrated approach.

Above and beyond its economic aspect, the European Union regional action is increasingly taking on a political dimension: there is a "Committee of the Regions" made up of almost 200 representatives of regions and local authorities. It effectively recognises the place of the local authorities in the institutional system of the Community. The Committee has to be consulted on several types of questions and also issues its own opinions.

2. Main orientations

The Structural Funds aim to promote a better economic and social balance within the European Union and reduce regional disparities by cofinancing regional development actions with Member countries. These actions complement or contribute to national operations.

The structural action of the Commission is based on four principles:

- concentration on a few priority objectives,
- multi-year programming (long-term action);
- partnership with the competent authorities of each state;
- additionality to the efforts of the states (subsidiarity).

In the priorities for the regional intervention of the Structural Funds, three objectives of a regional nature cover three types of region:

- **Objective No. 1**: structural adjustment of regions lagging behind in development (per capita GDP less than 75 per cent of the Community average);
- **Objective No. 2**: reconversion of industrial regions and areas in decline;
- **Objective No. 5b**: structured development and adaptation of vulnerable rural regions.

In the regions lagging in development, the accent is placed on catching up by means of direct investment in production and communications infrastructures, telecommunications, energy, water, transport, R&D, as well as in vocational training and indirect services to SMEs. In the reconversion regions or those in industrial decline, the accent is placed on new productive activities, the rehabilitation of industrial sites, R&D and the training of local labour. In the disadvantaged rural regions, the accent is placed on the diversification of activities, the creation of non-agricultural jobs (tourism, SMEs, etc.) and environmental protection. A new category of intervention has been created (**objective No. 6**) for the ultra-peripheral very sparsely populated regions of the Nordic countries (Sweden, Finland) to solve their particular problems.

As a general rule, the Structural Funds cofinance programmes which result from a process involving the different partners concerned: EC, member states, regions, local authorities. The European Commission seeks to place the accent on the participation of member states and regional authorities at all stages of the process.

The programmes sometimes stem from:

- "national initiatives" in the form of development plans -- Single Programming Documents (DOCUP) -- presented by member states, negotiated with the EC to result in Community Support Frameworks (CSF) which lead to funded operational programmes;
- "Community initiatives" defined by the EC to solve problems of Community impact.

3. Financial resources

The assistance provided by the Structural Funds amounted to ECU 64 billion for the period 1989-93. It will be some 141 billion, more than double, for the following period, 1994-99.

The "regional" action of the Structural Funds represents a budget of some ECU 118 billion. Priority continues to be given to regions lagging in development, 69 per cent of the budget, then to industrial regions in decline, 11 per cent of the budget, and lastly vulnerable rural areas, 4.5 per cent of the budget.

By far the greater part (90 per cent) of the budget of the Structural Funds goes to support actions carried out on the initiative of the member states, the rest to cofinanced (9 per cent) and innovative (1 per cent) actions implemented on the initiative of the European Union itself.

Table 9. **Breakdown of structural aid by regional objective and by country**

ECU million

	Obj. 1 1994-99	Obj. 2 1994-96[1]	Obj. 5B 1994-99
Germany	13 640	733	1 227
Belgium	730	160	77
Denmark			
Greece	13 980		
Spain	26 300	1 130	664
France	2 190		
Ireland	5 620		
Italy	14 860	684	901
Luxembourg			6
Netherlands	150	300	150
Portugal	13 960		
United Kingdom	2 360	2 142	817
Total	**93 810**	**6 977**	**6 134**

1. The programming of objective No. 2 includes a 1994-96 phase and a 1997-99 phase which will be broken dow n later.

Source: European Commission; Community initiatives not included, 1994.

In addition, there are subsidies of the new Cohesion Fund endowed with some ECU 15 billion. Lastly, the European Investment Bank (EIB) also contributes through its loans to promote regional development: in 1993 it devoted over ECU 15 billion to this.

4. Trends

For the period 1994-99, the Community Support Frameworks (CSF) for "national initiatives" and the programming documents relating to Objective No. 1 (backward regions) have already been adopted by the European Commission. Those relating to the other regional objectives are now in the process of adoption.

For the same period, the "Community initiatives" will be concentrated on seven themes: transfrontier co-operation, local development, support to ultra-peripheral regions, vocational integration, adaptation to industrial change, urban policy and restructuring of fisheries.

Development of disadvantaged regions, satisfaction of the requirements of convergence and coherence connected with economic and monetary union, the emergence of an "economy of solidarity" and co-ordination of national policies, transfrontier equilibrium and continental enlargement of the Community are recurrent themes as much as new challenges for the regional policy and structural action of the European Commission.

FINLAND

1. Institutional framework

Responsibility for regional development is shared between the state and municipalities. The Finnish legislation on regions was amended a year before the accession to the European Union, in 1994, partly to comply with the programming principles of the Structural Funds. On this occasion, decision-making power was transferred to regions and municipalities. The 19 Regional Councils - formed by municipalities - are responsible for planning and implementation of both the national and the EU's regional objective programmes in their respective areas. In the autonomous Aland Island, this is a Regional Government task.

Programme work is co-ordinated by the Ministry of the Interior, which is the Ministry responsible for regional development policy in Finland. The Ministry of Trade and Industry has more specific regional development responsibilities concerning economic development and regional business aids (investment aid, small-business aid, additional interest subsidy to loans granted by Kera Oy Ltd, regional transport subsidy, and special tax reliefs to firms). In 1994, business aid legislation was adjusted to EU rules on state aid.

To allocate regional aid measures - for example investment aid and additional interest subsidy to loans - and to apportion the amount of the aid, the Council of State defines the least developed areas as development areas or as structural change areas according to their state of development and needs. The development area is divided into three aid areas by sub-regional units. The amount of subsidies varies between these national aid areas.

The Ministry of the Interior is also responsible for developing regional and local administration, municipal legislation and legislation on the state subsidy for municipalities. The Ministry of the Interior monitors the activities and economy of the municipalities, and is responsible for negotiations between municipalities and the state. The new Local Government Act, which strengthens the self-governing status of municipalities and which came into force in 1995, gives more freedom and decision-making power to municipalities. On the basis of the Act, the municipalities have the opportunity to organise their administration and activities with local conditions.

2. Main orientations

The Regional Development Act introduced two significant reforms at the beginning of 1994:

- transfer of responsibility for regional development to the Regional Councils and strengthening of the role of municipalities;

- regional policy based on objective programmes.

The primary objective of this new legislation is to promote balanced national development and initiative and self-sustaining development in the regions. The four main orientations are:

- improvement of living conditions and the availability of basic services;
- regional infrastructures;
- renovation of the production structure of the regions, improving working conditions for enterprises and creating new jobs;
- strengthening of regional economies and the skills of the inhabitants.

In 1996, there were five national objective programmes set up by the central government: Structural Change Area Programme, Rural Area Programme, Archipelago Programme, Centre of Expertise Programme and Border Area Programme. The content of these programmes is defined regionally and approved by regional authorities.

The Structural Change Area Programme is implemented in fixed-term structural change areas with the aim of reducing problems caused by structural change in the industrial and service sector.

The Rural Area Programme can be implemented in rural areas all over the country. The objective is to revitalise the countryside by improving the income and services for people living in the area and strengthening the competitiveness and attractiveness of the countryside for living and business.

The Archipelago Programme is implemented in defined island municipalities (14 island municipalities and 36 part-island municipalities), and its goal is to secure the basic services and means of livelihood for the population and to protect the archipelago from environmental damages.

The main goal of the Centre of Expertise Programme is to improve the possibilities to establish and develop internationally competitive business activities requiring high expertise. The programme is innovative in many respects, mainly because it concentrates solely on urban areas and on the so-called success factors. The Council of State assigned eleven centres of expertise in 1994-95, of which three centres work as a network co-operating with several regions and organisations. The programme supports regional specialisation and co-operation between these centres. Other objectives are to exploit local creativity and innovation capacity and to encourage administration, industries, higher education institutes and research centres to co-operate for a joint strategy.

The Border Area Programme can be implemented in the whole country. Due to the close Nordic co-operation, the Western parts of Finland have traditionally had close contacts with Sweden and Norway. National resources have been allocated to co-operation with Russia and recently with the Baltic States, Estonia in particular. The aim of the programme is to increase co-operation with neighbouring countries such as Sweden, Norway and Russia and the border areas such as Murmansk, the Karelian Republic, St. Petersburg and the surrounding Leningrad region, as well as Estonia, Latvia and Lithuania.

3. Financial resources

The amount of specific regional aid for the years 1993 and 1994 was as follows:

	Mk million	
	1993	1994
Subsidies to investment and regional development	642	810
Subsidies to transport	250	160
Kera Oy	350	470

Source: Ministry of the Interior, 1996.

4. Trends

The Government has traditionally had an extensive rural area programme, and to advance the rural development it has established an inter-ministerial co-ordinating committee, the Rural Policy Committee. Since 1995, rural and urban policies are perceived as entities completing each other. Their common goal is to develop both modern urban communities with balanced social structures and a vital and versatile countryside. Therefore, the Council of State also established an inter-administrative Co-ordination Group for Urban Policy in 1996.

The focus on urban development is on utilisation of the new growing potential centred in cities, promotion of employment and prevention of problems caused by the recent high increase in urban unemployment. In the Urban Policy context, a balanced regional development is in future based on a functional urban network covering the whole country.

FRANCE

1. Institutional framework

In France, strong centralisation in Paris has a long history. It is only in recent years that we have seen the gradual emergence of the regions. Regionalisation began in France in 1955 with the division of the country into 22 "programme regions", created simply for the purpose of orienting public investments. Then, from being merely a "programme" the region gradually became a political reality: Act of 1972, then a succession of further legislation as from 1982.

Decentralisation is governed essentially by the Decentralisation Acts of 1982-83. Through this the region became a territorial entity administered by an elected regional council, but it still remained to accompany this decentralisation by real deconcentration of power.

With the Act of 4 February 1995 on land use and regional development this has now been done. A national plan for regional development sets the basic orientations and programming Acts establish for a period of five years the infrastructures and facilities to be provided and the nature of the corresponding public financing. Homogenous local development zones or "localities" (known as "*pays*") and several funds have been created, including a national equalisation fund intended to reduce the differences in the resources of different territorial authorities. The Act also provides for the creation of several consultative bodies.

At central government level, responsibility for regional development falls to the Prime Minister who delegates it to the DATAR (*Direction de l'Aménagement du territoire et de l'Action régionale*), which acts as general secretariat to the Interministerial Committee for Aid to the Localisation of Activities (CIALA) and the National Council for Land Use and Regional Development chaired by the Prime Minister.

2. Main orientations

> *Regional development policy contributes to the implementation of the fundamental principles of national unity and solidarity. Its mission is to give all citizens equality of opportunity throughout the territory of the Republic. It aims at the enhancement and balanced development of the territory of the Nation*
>
> (Article 1 of the Act of February 1995).

The broad objectives of land use and of regional development policy in France have always been:

- restructuring of the economies of the regions;
- town planning;

- improvement of the means of communication.

Regional policy is implemented as a function of the European framework. The present tendency is to strengthen the coherence between European and national regional policies, for example by bringing the maps of priority regions into line.

Three types of assisted areas have been created:

- Improvement zones (*zones d'aménagement du territoire* -- *ZAT*), eligible for the improvement grant (*prime d'aménagement du territoire* -- *PAT*) and characterised by a low level of economic development and inadequacy of the industrial fabric: the zones eligible for the PAT constitute a zoning accepted by the European Commission;

- Sensitive urban zones (*zones urbaines sensibles* -- *ZUS*), characterised by the presence of big blocks of poor quality flats or run-down housing: among them are urban redynamisation zones (ZRU);

- Rural areas for priority development (*territoires ruraux de développement prioritaire* - *TRDP*), disadvantaged areas with a low level of economic development; among them are rural revitalisation zones (ZRR).

These regional development zones are close to the three categories used by the EU (structurally backward regions, those undergoing industrial reconversion, disadvantaged agricultural areas). The programmes are approved according to the presence of enterprises in these zones. In the priority zones, enterprises can thus benefit from tax concessions, the reduction of social insurance costs and the reduction of various taxes.

In the present context of the globalisation of economic activities, the regions have an essential need to become integrated in the international network and to encourage the implantation of foreign enterprises. Competition from other European countries and the proliferation of local initiatives have made it necessary to co-ordinate efforts. The Interministerial Committee for Regional Development (*Comité interministériel d'Aménagement du Territoire* -- *CIAT*) thus decided, in November 1990, to reorganise and strengthen the DATAR network abroad (17 "Invest in France" offices) and the Development Commissariats, and to orient foreign investors towards the priority development zones.

Regional policy, as reaffirmed in July 1993, aims at five objectives:

- foster economic activity and job creation;

- reduce the imbalances between regions;

- contain urban concentration;

- develop the rural environment;

- improve the urban environment and quality of life in the towns.

Given the heavy urban concentration, both demographic (80 per cent of the population) and geographic, the main objectives of land use policy are aimed at creating alternatives to the hypertrophy of the Ile-de-France, to better manage the big urban concentrations, to facilitate local dynamics between town and countryside and anticipate any fractures between regions.

A national plan defines an overall urban policy, long-term and integrated in Europe, territorial and urban development polices, and lastly local habitat policies.

Four complementary objectives are concerned with the rural environment:

- improvement, adaptation and modernisation of the services provided to rural populations;
- encouragement of local dynamics;
- preservation of the environment and development of tourism and cultural activities in rural areas;
- development of economic activities.

Getting away from the traditional town/country distinction by taking account of the "commuting zones" in which local inhabitants pursue their everyday affairs, the Act of February 1995 instituted the concept of the locality ("*pays*"), the geographical framework for local development, a meaningful area within which the elected representatives work together with the community at large.

In addition, regional policies have to prevent the risk of marginalisation of part of the French territory with respect to the Europe of the Community. They have to take into account the development of new European poles and the effects connected with the disappearance of French frontiers.

Through the CIALA/DATAR, the French government attributes improvement grants (PAT) to enterprises capable of creating durable jobs. Depending on whether the zone is classified as normal rate, higher rate or special rate, the PAT covers respectively up to 17 per cent, 25 per cent or 33 per cent of the investment for industrial projects. The volume of investment has to be greater than FF 20 million and generally has to create a minimum of 20 permanent jobs in three years. For tertiary projects, the amount of the subsidy depends only on the number of jobs and the location, the volume of investment not being taken into consideration. The amount of the grant is then a maximum of FF 70 000 per job.

The regions are invited to conclude "plan contracts" with the state. A new generation of State-Region contracts 1994-1998 have been signed. The Research and Technology transfer aspects are important: particular attention is paid to the technological environment of SMEs. Furthermore, with the support of the decentralisation Acts, some forty "technopoles" and technological poles have been developed in all regions.

3. Financial resources

The many intervention funds, with the exception of the PAT, have been reformed and globalised within the *Fonds National d'Aménagement du Territoire (FNADT)*, which allows more flexibility in the management of credits. Furthermore, the reinforcement of deconcentration at the level of regional prefects permits greater rapidity of response. In 1995 several new funds have been introduced: a National Enterprise Development Fund (FNDE), a Rural Area Management Fund (FGER) and an interterritorial equalisation fund.

The sums devoted to regional aid have evolved as follows:

	FF million
1990	1 532
1991	2 029
1992	2 090
1993	2 596
1994	2 614
1995	2 762.5[1]

1. Of which FF 2 007 consolidated in the FNADT, and the remaining FF 755.5 reserved for improvement grants PAT.

Source: DATAR, May 1995.

4. Trends

The trend towards the simplification and harmonisation of procedures should continue. The tendency to prefer plan contracts between the state and the regions is also likely to continue.

GERMANY

1. Institutional framework

In the Federal Republic of Germany, the post-war Constitution has created a broad decentralisation of power. As a result, regional development was mainly entrusted to the regional authority of the "*Länder*" (states/administrative regions). However, at the beginning of the 70s a structure in the form of "common task" or a "Joint Scheme" was established.

This scheme is based on a Law ratified in 1969 and amended on the unification of Germany in August 1990. Regional policy was reviewed in 1994. A report was presented and accepted by the Planning Committee. The changes proposed in this report became enforceable after its acceptance by the European Commission (EC).

Regional development is a responsibility shared between the federal government and the 16 *Länder*. The powers of the *Länder* include, among others, various aspects of regional development and regional economic policy. Each Land develops its own course of action within the limits of the programme of the common task.

These activities are funded equally by the federal government and the *Länder*. The Planning Committee, at ministerial level, is made up of equal numbers of representatives of the federal government and of the 16 *Länder*. The implementation of projects coming under the joint programme and the definition of the details is the responsibility of the *Länder*.

2. Main orientations

The accent placed in the "common task" on the improvement of the economic structure makes it possible to flexibly adjust distributive fairness between regions.

German regional policy is part of national economic policy and has three objectives:

- mobilise the potential and the opportunities for economic development of the disadvantaged regions so as to increase their contribution to national growth;

- reduce the vulnerability of certain regions, in particular mono-industrial regions subject to economic and structural fluctuations (stabilisation function);

- reduce interregional disparities and thus help equalise living standards throughout the country.

German regional policy is very sensitive to the prevailing climate of the globalisation of economies and the new conditions of competitiveness. It intends to adjust to it and adapt its regional support accordingly.

The strategy of the federal government is, on the one hand, to create an environment favourable to private investment and, on the other, to support economically relevant regional infrastructures. Regional aid has to constitute an investment incentive for private enterprises, not be a permanent subsidy. Regional aid seeks to improve income and employment levels in regions in difficulty.

The policy revision in 1995 confirmed the priority to be accorded to the promotion of private investments, in particular those encouraging the export outside the region of goods and services, thus boosting regional income. While assistance is first allocated to private investment projects, other forms of aid are available to SMEs under the Joint Scheme: consultancy, training, research and development. Particular attention is thus paid to SMEs and soft loans (mainly in the service sector).

Geographically, all the territory of the eastern *Länder* is eligible for regional aid, including the eastern part of Berlin, plus designated areas in the west, covering some 22 per cent of the population in 1994 (as against 30 per cent in 1993). The criteria for designating these areas are: unemployment (with a weighting of 40 per cent), income (40 per cent), infrastructures (10 per cent) and potential labour market opportunities (10 per cent).

There are still great disparities between eastern and western Germany. Priority therefore continues to be given to the economic development of the new *Länder*. Eastern Germany still suffers from serious demographic imbalances and deep-rooted economic problems. A higher growth rate than in the western part of the country, the beginnings of a reduction in unemployment, the renewal of infrastructures and substantial financial transfers from the old *Länder* to the new *Länder* should reduce this inequality in the longer term.

3. Financial resources

In 1994 the regional aid budget of the joint scheme amounted to some DM 9 700 million:

- East: 9 000 million (92.7 per cent), including 1 900 million from the EC Structural Funds;
- West: 700 million (7.3 per cent), to which it is necessary to add two special programmes for mining regions in crisis, amounting to DM 112 million.

4. Trends

In order to meet the needs of the new *Länder* it will be necessary to continue transferring regional aid for some years yet. However, in view of the prevailing climate of budgetary restriction, clearly defined priorities need to be set for both eastern and western Germany. These priorities should be established as a function of local needs and the aid provided should go to the most effective and efficient measures. In eastern Germany, the Community Structural Funds will continue to play an important role.

GREECE

1. Institutional framework

The Ministry of National Economy (former Ministry of Co-ordination and, since the national elections of 1996, Ministry of National Economy and Finances) has always been the ministry responsible for planning national and regional development policies and programmes, including those financed by the Community. It also manages the annual public investment budget for sectors and regions, and through its central and regional offices evaluates and approves major private investment projects to be publicly financed under regional incentives laws.

Aid to small firms is delivered through the national Organisation for SMEs, and that for rural areas by the Ministry of Agriculture. Measures to simplify the procedures for granting and installing a "one-stop" approach are being prepared.

2. Main orientations

The 1994-99 development plan of Greece , which was adopted by the Community in the context of the Community Support Framework (CSF) for the period, has been in operation since then. This plan was drawn up on the basis of 70.5 per cent of the funds being allocated for national projects, on the understanding that the regions would benefit from them, and 29.5 per cent for regional development as such.

The principal policy orientations of the Plan are as follows:

- priority to major infrastructure projects, in particular for transport and other public utility projects;

- reduction of regional disparities and exploitation of the potential and comparative advantages of the regions;

- introduction of new eligible sectors (health insurance, culture, athletics, etc.) and increased interest in tourism and the environment.

The main priorities are concerned with industry, energy, health insurance, tourism, the environment and telecommunications. The creation of industrial parks and science parks and the strengthening of SMEs are also important fields. Technical assistance funds are planned for both the public and private sectors.

In industrial areas in decline, afflicted by the closure of enterprises and high unemployment, new forms of aid are planned: training and redeployment of workers, urban and housing rehabilitation (in collaboration with the URBAN Programme of the EU), job creation in the service sector, etc.

The growth of enterprises in frontier areas, the development of new technologies and the effective management of the systems are all major concerns. Regional development funds are to be set up in the regions.

Law 1892/2 on investment incentives was amended in 1993 and 1994, to place more emphasis on the development of new products and the creation of new enterprises, research activities and the modernisation of factories. Preferential treatment is given to enterprises producing for export and those which, through their know-how and innovative spirit, make a significant contribution to the growth of the economy, and lastly to those whose services provide support and training to SMEs. It was also considered important to aid tourism in respect of upgrading accommodation (for integrated touristic development projects in selected areas), and to encourage a new form of tourism as an alternative to the mass tourism which has been prevalent in Greek coastal areas until now.

The national territory was divided into five zones ranked in priority according to their state of development, difficulties and development targets. For the period 1993-95 out of a total regional aid of 88 billion drachmas (88 price index) zone A (minimum aid) received 15 per cent, zone B 11 per cent, zone C (the most extensive territorially) 34 per cent, zone D (maximum aid) 10 per cent and zone E (the special border zone) 29 per cent.

3. Financial resources

The financial resources for regional development consist of public expenses (the Central Government Budget and especially its National Public Investment Programme). Community funds (the Community Support Framework and the Cohesion Fund for which Greece qualifies as its per capita income is below 70 per cent of the Community average, Community Initiatives, Special Development Programmes) and private investment.

4. Trends

The trend is to greater alignment on the policies and regulations of the European Union.

HUNGARY

1. Institutional framework

Since 1990, Hungary has been experimenting with a new system of territorial administration. The local authorities Act (Law LXV of 1990) gave the local authorities substantial powers in many fields, but there are no intermediate structures between the central government and the local authorities. Decentralisation was not accompanied by regionalisation.

There is a total of almost 3 200 communes, 50 per cent of which have less than 1 000 inhabitants. There are 19 counties (*Megye*), but they have very limited powers. Certain big towns have country status. In addition, the function of Commissioner of the Republic, designated by the state, and responsible for eight administrative regions has been abolished

2. Main orientations

With a small population, Hungary has a very uneven population density due to the relative weight of Budapest. The rural population makes up about 38 per cent of the total. There are traditional imbalances between the east and west of the country and between the north and south, the north being more industrialised and having more developed infrastructures. The peripheral frontier regions of the north-east, and the east in general, and in the south-west are characterised by lagging development. Rural areas are affected by job cuts in the industrial areas because very often these jobs were held by people living in rural communes.

Hungary embarked upon institutional and economic reforms long before the collapse of the eastern block and was therefore better prepared for radical transformation. Hungary adopted a "gradualist" strategy aimed at linking macro-economic management of the imbalances and micro-economic transformations as a medium and long-term process. This strategy is pursued under the constraint of a substantial external debt, so that the sudden interruption of trade with the markets of the former Soviet Union had direct impacts on manufacturing, agriculture and the agro-food industry. This macroeconomic adjustment did not affect the whole of Hungary to the same extent, and local crises began to appear as early as 1990, carrying the risk of fractures in the economic and social fabric at regional level.

Since 1989 the Hungarian authorities have continually reaffirmed the need for a new regional policy, stressing the dominant role of the central government. The accent was first placed on action in favour of the areas in the greatest difficulty:

– The Regional Development Fund, recently reorganised, is the principal instrument for this action. It is managed by an interministerial committee. In 1994 and 1995 it has been endowed with six billion Forints. Its action helps support the creation of jobs and enterprises, and to finance the infrastructures necessary to favour the economic revival of regions in crisis.

- Regional programmes have been drawn up, in concertation with the representatives of the communes.

Hungarian regional policy is not limited solely to underdeveloped areas or zones in crisis. Specific actions need to be integrated in an overall approach which concerns the whole of Hungary. The Hungarian authorities, therefore, embarked on a major study of the concepts and basic principles of a regional policy adapted to the conditions of a market economy and decentralised system of territorial administration. This approach has generated many actions.

It was in this context that the European Community PHARE programme was used. This programme gave the authorities the resources to be able to complete a new stage in their efforts. The PHARE programme is important and represents a cost of ECU 10 million. Other programmes have a regional dimension. For example, the programme concerned with SMEs and the constitution of a network of local agencies to support the creation and development of SMEs at county level; the programme concerned with the reform of the public administration and the management of the communes; the Agriculture, Industry, and Transport programmes, etc. In short, we find regional activities and instruments without being able to see a true regional development policy. This should gradually begin to emerge.

3. Trends

The political initiatives from the Hungarian authorities are increasingly governed by changes of behaviour in the direction of a market economy and by an increase in the resources available. If the will and the potential for developing a new regional policy exist, a certain number of obstacles remain:

- Decentralisation has led to the fragmentation of local power without there being any intermediate regional structures or any form of strong and stable association between the communes.

- Experience of regional and local development in the context of a market economy and a decentralised system of territorial administration is still very limited; competencies need to be improved at all levels.

- Lastly, external events, the situation of the neighbouring countries and the opening up to the West are giving rise to new disparities and forcing choices which will have very significant consequences for regional equilibrium.

ITALY

1. Institutional framework

In the field of regional development, Italy has pursued a policy in favour of the South for 40 years, concentrating "extraordinary" regional aid on the disadvantaged region of the Mezzogiorno. The body responsible for regional development was then the *Agenzia per the promozione dello sviluppo del Mezzogiorno*, assisted by the Interministerial Committee for Economic Planning (CIPE) and the Interministerial Committee for Industrial Programming (CIPI).

However, a series of changes, in particular Law 488/1992, put an end to 40 years of extraordinary action in favour of the Mezzogiorno: regional development is now organised around regions and "ordinary" actions extended to all the disadvantaged areas of the country. Regional policy is thus intended to combat both the problems of backwardness specific to the southern regions and the territorial imbalances found in many areas of the Centre-North.

On the institutional level, Law 96/1993 reorganised powers at central government level. The changes were made with difficulty. The Ministry of the Budget introduced new administrative structures specially designed for the co-ordination of regional policy.

– The functions of the Agency for the Mezzogiorno were assigned to the Ministry of the Budget, together with responsibility for the co-ordination, programming and monitoring of all regional measures;

– A more significant role was given to various other ministries: the Ministry for Industry now has powers with regard to granting aid to productive activities; the Ministry of Labour for aid to youth employment; the Ministry for Scientific Research now has wider powers for creating new research centres; and the Ministry of Public Works is responsible for the implementation of future infrastructure projects.

New guidelines for the interministerial committees (CIPI and CIPE) have been promulgated and a "Regional policies observatory" (renamed Cabina di Regia Nazionale as from August 1996) has been set up with the task of monitoring the progress, economic convergence and effectiveness of measures.

2. Main orientations

The creation of new jobs, the economic competitiveness of the regions in the face of growing globalisation, the development of infrastructures, the rationalisation of the big urban centres, the development of technologies, the reconversion of old industrial areas, the development of disadvantaged agricultural areas, the promotion of local products and protection of the environment: all these constitute objectives and fields of action for regional policy.

Italian regional development is clearly aligned on the objectives, regulations and development zones of the European Union. It comprises targeted measures for *(i)* disadvantaged structurally backward zones (objective 1 of the EU) (essentially the Mezzogiorno and the Abruzzi), *(ii)* zones in industrial decline (objective 2) (regions of the Centre-North), and *(iii)* disadvantaged rural areas (objective 5b) (also the Centre-North).

New aid measures, decided by the CIPI in April 1993, are available for enterprises in disadvantaged zones. These are available for production plants, extension and modernisation projects, redeployment or relocation. The amount of aid is determined with respect to the total investment cost of the project planned by the enterprise. In disadvantaged regions of objective 1, the first tranche of aid may cover up to 65 per cent of the investment cost in the case of SMEs and up to 50 per cent for other enterprises. In the declining industrial zones of objective 2 and the disadvantaged rural zones of objective 5b the maximum cost coverage is in the order of 20 per cent for small enterprises and 10 per cent for the average enterprise.

The Interministerial Committee for Economic Planning (CIPE) allocates the sums available for subsidies to enterprises, by objective and by zone, each year. Subsidies are also available for research, up to the limit of the Community regulations. The Minister for Universities and Scientific Research evaluates the projects, checks the validity of the expenditure and monitors progress.

3. Financial resources

Each year, during the period 1994-99, some L 10 270 billion (1994 prices) will be invested in regional development. The distribution of the aid will of course evolve over time according to the priorities and any emergency situations which may arise.

For the period 1994-99, the total budget for regional development is as follows:

Lira billion, 1994		
Structural Funds (EU)	28 234.2	(46%)
Public funding	19 621.4	(32%)
Private funding	13 777.7	(22%)
Total	**61 633.3**	**(100%)**

Source: Ministry of Budget, 1995.

The sectoral breakdown is as follows:

- communications, 16.1 per cent;
- industry, 31.4 per cent;
- tourism, 6.5 per cent;
- agriculture, 13.4 per cent;
- fisheries, 1.5 per cent;
- infrastructures (excl. communications), 20.8 per cent;
- human resources, 9.8 per cent;

– technical assistance, 0.4 per cent.

4. Trends

The dominating factor is the explicit desire to align regional policy on the objectives and regulations of the European Union.

JAPAN

1. Institutional framework

The Ministry of International Trade and Industry (MITI) is the institution responsible for economic development. It is supported in its efforts by different organisations created specifically for the purpose and by a multitude of national and regional bodies interested in economic development. Special mention should be made of the Planning and Research Department of the Bureau for Regional Development and the government Agency responsible for SMEs.

There seems to be a need for further decentralisation of the administration of regional aid. MITI is the central institution responsible for regional development, while the Prefecture is the local institution.

2. Main orientations

In Japan, efforts are concentrated on fostering a multipolar development of the economy on the basis of massive investment in decentralisation. The government encourages the dispersion of factories throughout the archipelago and the development of infrastructures.

Regional development is the result of a long process which began in the aftermath of the Second World War and which, thanks to a series of Acts (on relocation in 1951, on technopoles in 1983, on the brains of industry in 1988, etc.), gradually crystallised into a policy of industrial relocation.

The decongestion of the big centres to the benefit of the regions and the development of a regional industrial infrastructure are the main objectives of regional policy. In addition, the regions are encouraged to show initiative and "self development" in the field of economic development.

This is reflected in the new Comprehensive National Land Development Plan, approved by the National Land Council in December 1995. The Plan emphasises:

- the coexistence with the natural environment and qualitative improvement instead of just development for the purpose of bolstering economic growth;

- regional development under the responsibility of the region itself (encouraging efforts to replace management at the national level).

This development plan also aims at redirecting regional development more towards rural areas, somewhat forgotten in the past.

From 1960 to 1983, the decentralisation Acts aimed in particular at heavy industries, notably those of the Pacific rim. Since 1983, Japan has endeavoured to achieve a more balanced regional development through the creation of new industrial towns known as "technopoles". The technopoles effect the symbiosis between scientific development (R&D, university activity) technology and industrial development (high-tech enterprises) together with residential and urban development (integrated habitat). This new strategy of developing intermediate, integrated and highly technicised regions took shape gradually. MITI was the main instigator. The long-term approach is not aimed so much at the elimination of regional disparities as at the creation and reinforcement in the regions of a high-tech potential. Some 26 pilot high-tech mega-projects have been developed with varying degrees of success.

The effort in favour of technopoles has born fruit in the form of technology transfers and SME initiatives. In terms of the value of shipments, value added, employment, implantation of high-tech enterprises, 1989 marks a watershed. This was when the technopoles took off: since then their performance indicators have always been higher than the national average. This does not mean, however, that no structural problems remain: sometimes uncertain polar attraction, delays in announced participation, persisting over-concentration in the big conurbations, problems of environment and quality of life, internal pressures in the zone due to the strong influence of one or more of its components, economic situation, appreciation of the Yen, etc. In addition, the technopole should be not simply a tool for delocalisation but also a means of achieving balanced regional development.

A complementary concept, brains of industry/Centre of industrial intelligence, was created in 1988 (a kind of one-stop integrated private services centre). Some 26 Centres bringing together enterprises and leading-edge services (laboratories, information/communication, design, consultancy, etc.) provide local support for the enterprises which are the driving force of regional economic development.

SMEs play a very important role in the Japanese economy. In 1991, small firms with less than 300 employees made up 99.1 per cent of all enterprises (excluding the primary sector), and accounted for 79.2 per cent of total employment, 51.8 per cent of shipments (excluding primary), 62.1 per cent of wholesale sales and 78 per cent of retail sales. This importance of SMEs is explained, among other things, by the strong subcontracting relationship of SMEs with big enterprises and by the good networking of SMEs, which often have common services.

It is interesting to note that SMEs have maintained this performance for some thirty years now, ever since the introduction of the Act on SMEs. Some years ago, considering that small firms needed to adapt to a critical economic situation, to substantial changes their technological and commercial environment, the government introduced new support measures for SMEs, to encourage them to rationalise their structure and to pool resources. Given the great number of small firms, the government agency responsible for SMEs delegates the implementation of the measures to local administrations, associations of SMEs and other bodies in the SME sector.

Lastly, the national regional development programme unequivocally favours the internationalisation of Japan and its regions.

3. Trends

Considerable changes are being made in Japan's industrial structure due to the opening and globalisation of markets, the deteriorating localisation conditions in Japan because of the excessive appreciation of the Yen, and also due to costly labour as compared with that of neighbouring countries. There is, thus, a certain amount of relocation of industry in Asia. On the other hand, this opens up new opportunities for the country's SMEs.

Substantial social changes have also come about: young people want less children, the birth rate is declining and the size of the active population is going to fall. These young people also have different values: they are better off and are not prepared to return to their region unless they can find the same quality of life as in the big conurbations like Tokyo, Nagoya, Osaka, etc. While the mononuclear Tokyo area shows some fall in population, other conurbations are tending to grow to take its place.

The most northerly region of the country, the island of Hokkaidó, remains to be developed. In an overpopulated Japan where towns merge into one another over hundreds of kilometres, Hokkaidó appears very sparsely populated. The difficult environment is a disincentive for attracting more residents.

The future orientations for regional development are of two types:

- Increase the attraction of Japan and its regions as a site for industrial investment by deregulating, by compensating for the price differentials with the outside world, by reviewing the costs of transport and telecommunications, by simplifying land use.

- Step up R&D, improve infrastructures (including the rehabilitation of the Kobe region, destroyed by the recent earthquake), the social capital in the regions, and communications networks.

Along these lines, the 1995 National Land Development Plan supported the formation of national land axes linking the North East, South West and the Japan Sea Coastline which are separated from the Pacific Ocean belt.

Another basic objective is to encourage the creation of a nation that is full of vitality, open to the world and combining an enriched quality of life with a sustainable natural environment.

KOREA

1. Institutional framework

National and regional planning in Korea is characterised by its hierarchical structure, mainly based on the planning of each region. The Law for National Comprehensive Development Plan, which was enacted in 1963 as a lower-level legislation of the Korean Constitution Article 120-2, provides a legal basis for the National Comprehensive Development Plans (1st 1972-81, 2nd 1982-91, 3rd 1992-2001). Following the national plans, several provincial plans have been established for normal administrative areas, on the basis of which subsequent county plans have been formulated, and specific development plans have been made for those areas with specific interests. In addition, the Law for Managing the Capital Region was enacted to carry out specific management of the Capital Region the primary area with constant growth both in population and economy.

Recently, ever-growing regional disparity forced the government to enforce a Law for Promoting Balanced Regional Growth. According to this law, Enlarged Economic Area Development Plans are now being prepared for seven regional centres, and Development Promotion District Plans for remote peripheral areas.

Planning authority is still centralised by the central government. The Ministry of Construction and Transportation (MOCT) establishes and implements national and some regional plans, e.g., for the Capital Region, with the assistance of other ministries. The Ministry of Finance and Economy (MFE, *formerly* Economic Planning Board), which is responsible for economic development, finances the implementation of the plans. Regional plans are prepared by each local authority, but are approved by a higher level of government, e.g., provincial plans by the central state and county plans by provincial authorities. Each city is endowed with the authority to design urban land use planning for the districts designated by the central government, but is also required to obtain approval from higher authorities.

MOCT controls a research centre, Korea Research Institute for Human Settlements (KRIHS). KRIHS has participated in formulating a series of national plans and many of the regional and urban plans.

2. Main orientations

Regional policies in Korea are currently focusing on solving the problem of regional disparity and accomplishing balanced regional growth, and at the same time, are fully utilising comparative advantages of each region. Regional disparities have been accumulating due to the unbalanced development strategies which were concentrated in the axis connecting Seoul, the capital city, and Pusan, the second largest city located in the far south-east. The Capital Region, which includes Seoul and its surrounding city and province, occupies only 12 per cent of total area, but has 45 per cent of total population, 56 per cent of manufacturing companies and produces 46 per cent of total GDP.

Regional policies have the following four orientations, based on four regional divisions:

- The Capital Region maintains the regulation scheme which prohibits greenfield location and the expansion of manufacturing companies and universities. However, international business functions, financing and trade functions and R&D in high technology sectors are allowed, or are sometimes encouraged, to locate in this region to maximise the potential of the area.

- For the regional economic centres in areas other than the Capital Region, Enlarged Economic Area (EEA) Development Plans are being established for designated areas. Each EEA consists of a few central cities and their hinterlands. Industrial complexes, transportation infrastructure, regional information systems, etc. are developed for each EEA.

- As the rural population is expected to seriously decrease as a result of increasing imports of agricultural products, rural policy tends towards the concept of a unified development of urban and rural areas. Rural areas would have centres with diverse economic activities other than agriculture.

- For the underdeveloped areas, Development Promotion District (DPD) Plans are being prepared. These areas include abandoned mining areas and areas which have been alienated from the development path. Development of resort facilities including ski slopes, golf courses, thematic parks, traditional culture centres, etc. are planned for a few designated DPDs.

SMEs in Korea have encouraging potential in regional policy. SMEs with less than 300 employees account for 98.4 per cent of total number of manufacturing companies, 65.8 per cent of total employment, and 45.2 per cent of total product. SMEs, however, are mainly concentrated in the Capital Region where 56 per cent are located. It is important that SMEs are encouraged to locate in areas other than the Capital Region.

3. Financial resources

Investments in respect of the Second and Third National Comprehensive Development Plans and the composition of financial resources are as follows:

	Second Plan (1982-91)	Third Plan (1992-94)
Amount of investment in US$ billion, 1990	262.8	150.3
Per cent of GDP	14.3	16.3
Funding sources		
Central government	30.7%	25.3%
Local governments	13.3%	15.2%
Private sector	56.0%	59.4%

Source: Ministry of Finance and Economy, 1995.

The Third plan is still being implemented with the target year being 2001. The figures above illustrate the accomplishments up to 1994.

The trend for financing policy is to increase the shares of local governments and the private sector. Specifically, the Law for Promoting Private Capital Investment was enacted recently to legally secure private participation in infrastructure investments. In accordance with this law and the subsequent plan, private companies are applying for projects such as construction of highways, railroads, stations, etc.

4. Trends

Regional policies in Korea are facing many opportunities and challenges. First of all, the era of decentralisation has been launched with the direct election of heads of local government in July 1995. Local governments are now making efforts to actively take the lead in regional development policies. Negative effects, however, also exist; as regionalism prevails, there could be conflicts in using water resources, sharing environmental facilities and allocating population and industrial indices. The status of national planning should also be re-evaluated.

The request for Environmentally Sound and Sustainable Development (ESSD) is expected to have considerable effect on regional policy. Previously environmental conservation was treated as a sector apart, but is now an aspect which concerns all areas of regional policy. For every sector, e.g., transportation, industrial location, land use and tourism, it is more likely that ESSD will be given the top priority.

The growing possibility of unification of two Koreas is another challenge. Even though there is much uncertainty about the time and method of unification, the implications on regional policies are numerous. Regional development projects exist for each stage of the unification process, and these include: developing border areas characterised by sites of high ecological value; connecting transportation routes between south and north, and even to China or Russia, and formulating complementary industrial location structure.

MEXICO

1. Institutional framework

The main institution in charge of implementing regional development policies in Mexico is the Secretariat for Social Development (SEDESOL). Its actions are closely related to and complemented by the activities of other public institutions such as the Ministry of Agriculture, Livestock and Rural Development (SAGDR), the Ministry of Environment, Natural Resources and Fisheries (SEMARNAP), the Ministry of Communications and Transport (SCT) and the National Bank for Public Infrastructure (Banobras).

The actions of these institutions are co-ordinated by the Interministerial Commission for Social Development where policies for different regions are discussed in order to maximise the benefit from the co-ordinated development and operation of infrastructure, basic public services and anti-poverty programmes.

2. Main orientations

Mexico's social and regional policies have five main objectives:

- increase the quantity and quality of basic public services;
- influence territorial distribution of population and in its rate of growth;
- promote a balanced development of regions;
- focus the benefits of public expenditure on the poorest segments of the population;
- increase the "integrality" of social development policy.

The promotion of a balanced development of regions is based on the strengthening of the decentralisation process. This means the transfer of more resources and responsibilities to regional and local levels of government. Its final objective is to set the economic base for a fair and homogeneous social development throughout the country.

In Mexico, there are important disparities within the macro-regions as well as among them, e.g., the South has the highest levels of extreme poverty despite its relative abundance of natural resources. The Centre and Northern regions also have very particular characteristics. That is why regional development policy is based on specific activities for each region in close co-ordination with local authorities.

At the state level, the activities to be carried out in micro-regions are decided upon according to the definition of "priority zones". The objective is to achieve an adequate level of social and economic know-how in the local governments as well as an active participation of the communities.

Short-term measures have been adopted to alleviate the effects of the economic crisis and the adjustment programme implemented by Mexico. The most important measure adopted is that of the Emergency Employment Programme to reduce short-term effects of the economic crisis on employment.

3. Financial resources

Recent decentralisation of resources for social and regional development and the instability of economic indicators caused by the economic crisis make it difficult to estimate accurately the real amount of resources spent on regional development.

Federal resources devoted by the Secretariat of Social Development to regional development and poverty alleviation (the so called Ramo XXVI) grew significantly from 1993 to 1995. As a proportion of GDP Ramo XXVI resources passed from 0.2 per cent of GDP to 0.8 per cent in the period mentioned. From the broader perspective, the corresponding percentages for public expenditure in social development (education, health, social security, training, urban and regional development and supply of basic foodstuff) are 6.3 and 10.0 per cent of GDP for and 1995, respectively. In 1996, 65 per cent of the Ramo XXVI has been decentralised. The total amount is approximately US$ 1.5 billion.

4. Trends

In the short term and due to the economic crisis, the government is paying particular attention to the general equilibrium of public finances. However, once economic growth has returned to normal the resources for social and regional development should increase both in real terms and as a percentage of public expenditure.

NETHERLANDS

1. Institutional framework

The Ministry for the Economy conducts regional development operations in close collaboration with its partners responsible for land use and the environment and with the provinces and regions. It is the responsibility of the regions to implement the broad lines of regional policy defined by the government. The main instruments of regional policy are the Investment Premium Regulation (IPR), applicable in the Northern Provinces and Twente and South Limburg, the regional development bodies (ROMs), and the Integrated Structural Plan for the North Netherlands.

2. Main orientations

The main objective of government policy is to boost employment. There are three main lines of action here:

- The development, with a view to international accessibility, of infrastructures capable of strengthening the central position of the Netherlands in the north-west of Europe: connection of the transport and communications networks to the international networks; development of Schipol Airport and the port of Rotterdam; selective improvement of the internal road and rail networks, etc.

- Create, within a densely populated country (highest population density in the EU), a sufficient space for economic activities: planning with the provinces to create zones for the establishment of enterprises, new regulations, etc.

- Exploitation of the economic potential at regional level: analysis of the strengths and weaknesses of the regions; considerable private sector participation in deciding and implementing policies; responsibility of municipal, provincial and regional authorities for the shaping of coherent policies tailored to the specific situation of the regions (decentralisation).

In the Netherlands the economic disparities between regions are tending to disappear. The north of the country is nevertheless lagging behind in development with a weak productive structure and high unemployment rate. Netherlands regional policy is, therefore, concentrating its efforts mainly on this region:

- The integrated development plan for the north of the country (ISP-V) is aimed at strengthening the private sector and improving infrastructures and the regional environment for enterprises.

- Aid to regional investment projects (IPR) is aimed at strengthening the productive structure through promoting investment by enterprises in key sectors of the northern region economy.

- The northern regional development body (NOM) is an essential regional policy instrument for this part of the country.

The importance of European regional policy has greatly increased. Netherlands' regions are increasingly able to call upon the European Structural Funds (cofinancing of regional programmes or community initiatives).

3. Financial resources

In 1991, the regional development aid budget amounted to 338 million Florins, 413 million in 1992, 341 million in 1993 and 381 million in 1994.

The funds allocated by the Ministry for the Economy for regional development purposes will be in the order of 1 430 Florins for the five-year period 1995-1999, or some 287 million a year (280 in 1996).

4. Trends

Regional policy is confronted with two major challenges:

- The seriousness of the problem of the space available for economic activities. Strategic projects for the implantation of enterprises at regional level are to be developed, with at the same time the introduction of incentives to attract economic activities to these decentralised areas.

- The priority development of the north of the country will require the state to make additional efforts in the coming period (1995-1999).

NORWAY

1. Institutional framework

Responsibility for regional policies within the Norwegian government is divided between two ministries:

- The Ministry of the Environment, is responsible for regional planning and the use of natural resources, in particular the use of land;

- The Ministry of Local Government and Labour is responsible for regional development policies and in particular economic measures.

Regional industrial development policies are implemented through various bodies:

- The Industrial and Regional Development Fund (SND) provides investment incentives to private firms located within target areas, in the form of loans, subsidies and guarantees. There are also specific R&D programmes. Within the framework of the SND, responsibility for small investment and development projects of private firms is delegated to the county-municipalities;

- The municipalities are delegated by the Ministry of Local Government and Labour to support local initiatives concerned with infrastructures, employment and business (SMEs, industrial planning).

2. Main orientations

The peripheral regions constitute the target area for regional development measures. This area covers about 32 per cent of the population. It is divided into different zones, with Northern Norway having support priority. Up to now, regional development has been oriented entirely towards the peripheral regions, particularly the less economically advanced among them. It has mainly been a matter of maintaining the principal population structures by means of economic measures directly aimed at private enterprises, infrastructures and local job creation initiatives.

The aggravation of unemployment in the central regions and the specific problems posed by the restructuring of industrial areas in decline in the centre of the country also constitute reasons for regional action. As regards urban areas, the main objective of the central government is to ensure that they have a favourable influence for the country as a whole.

The most important programmes and instruments are as follows:

- subsidies to private businesses for investment and development projects;

- investment loans and guarantees

- regional differentiation of the employers' social insurance contributions;

- R&D programmes directed at groups of private enterprises and at regional R&D infrastructures;

- local infrastructure and employment initiatives, including municipal development funds.

3. Financial resources

The regional development policy budget for 1993 is as follows:

	Million Norwegian kroner
Investment and development grants	2 461
Local infrastructures and employment initiatives	472
Regional R&D initiatives	196
Regional pilot projects	159
Total	**3 288**

Source: Ministry of Local Government and Labour, 1994.

On top of this, several nation-wide sectoral policies (agriculture, fisheries, education, transport and communications) necessarily have regional priorities and special programmes.

4. Trends

Regional policy will in future aim to better cover the problems of urban areas, but economic development efforts will still be concentrated on the target areas suffering from remoteness and low population density. Norway intends to remain faithful to its policy of decentralisation centred on the counties and municipalities.

PORTUGAL

1. Institutional framework

The Ministry of Equipment, Planning and Territorial Administration (MEPAT) and the Secretariat of State for Regional Development (SEDR) are responsible for preparing and implementing the Regional Development Plan (PDR). The Directorate-General for Regional Development (DGDR) is the body in charge of preparing and promoting regional development policy, co-ordinating the actions of the Community Structural Funds and preparing and supervising programmes cofinanced by the European Regional Development Fund.

The Regional Co-ordination Commissions (CCR) are regional bodies of the central administration (MEPAT). They co-ordinate and implement development activities in the regions and ensure liaison and co-operation between local authorities and the central administration.

The Regional Development Plan (PDR), heavily subsidised by the EU structural funds (Community Support Framework), is implemented through two multidisciplinary structures:

- a Management Committee responsible for overall co-ordination of the implementation of the Plan;

- a Supervisory Committee responsible for monitoring and evaluating implementation of the Plan and for approving proposed changes.

There is also a PDR Observatory, a consultative body reporting to the Secretary of State for Regional Development, made up of independent experts.

2. Main orientations

Regional policy in Portugal is embodied in the Regional Development Plan (PDR), which covers the entire country and generally includes nation-wide sectoral programmes, support programmes for economically backward regions and specific regional or local development programmes.

Present regional policy is defined by the 1994-99 PDR, the overall aim of which is to reduce the internal imbalances and the gap between Portugal's level of economic and social development and the European average. It is intended to adjust economic growth to the evolution of international markets, in particular EU markets, and improve the quality of life of the people.

The 1994-99 Regional Development Plan pursues the following objectives:

- improve human resource skills and employment (education, science and technology; vocational training and the quality of employment);

- strengthen the factors enhancing the competitiveness of the economy (basic infrastructures: transport, energy and telecommunications; competitiveness of enterprises;

- enhance the quality of life and social cohesion (environment and urban revitalisation; health and the economic and social integration of disadvantaged social groups);

- strengthen the regional economic base (exploit the potential of the regions; seven specifically regional programmes; aid to local investment through soft loans to municipalities).

Regional action is structured around:

- nation-wide sectoral programmes which vary somewhat in application throughout the country, in the fields of education and training, major economic and environmental infrastructures, production, with priority to less developed regions;

- regional support programmes with priority to the less developed regions of the interior.

There are special programmes for frontier areas (Community INTERREG Programme), the run-down districts of the metropolitan areas of Lisbon and Porto (Community URBAN Programme), and other priority areas such as Ave, Douro, Alqueva, etc.

Financial aid is also granted to SMEs, local development initiatives, small job creation projects, innovation, rural projects, and for access to European subcontracting networks and public markets.

A regional aid system, the SIR, was created to subsidise small business capable of boosting the local potential and stimulating the local economy and employment, to promote the commercialisation of local products, etc. The aid takes the form of grants, not repayable in the case of investments of less than 80 million Escudos, repayable in the case of investments above this limit. The financial coverage may be up to 70 per cent of the eligible investment sum.

3. Financial resources

The budget of the PDR/CCA, for the period 1989-93, amounted to 3 400 billion Escudos. The anticipated budget for the PDR for 1994-99 will exceed 6 500 billion Escudos. In addition to these sums are the resources transferred from the central government budget each year to the local administrations (Financial Equilibrium Fund). For the period 1989-93, these transfers amounted to some 768 billion Escudos.

4. Trends

Already benefiting from the European Structural Funds and the Cohesion Fund, the Portuguese regional policy will be strongly influenced by EU regional development policy.

SPAIN

1. Institutional framework

The Spanish constitution recognises and guarantees the right of autonomy of the nationalities and regions which make up the Spanish nation; but it also recognises and guarantees the solidarity which binds them. The national territory is broken down into 17 autonomous communities (*comunidades autònomas*), regions/nations, each with its own institutions: a legislative assembly, a cabinet and a supreme court of justice.

In 1993 and 1994, the central government devolved more powers and responsibilities to the regions. The powers of the autonomous communities now cover 22 fields, including regional development and economic development. Their financing is a joint responsibility through a taxation system established in October 1993, reflecting a form of fiscal federalism with transfer of funds to the autonomous communities.

2. Main orientations

The main regional policy objectives are the development of the less favoured regions (to reduce regional disparities) and the restructuring of the productive fabric in the industrial zones in decline or in difficulty. An Interterritorial Compensation Fund, for investment expenditure, is intended to correct interregional imbalances on the basis of the principle of solidarity between all Spaniards. Under this fund, spending amounted to Pts 390 million between 1994 and 1996.

Between 1989 and 1993, a regional policy priority was to remedy the lack of infrastructures and facilities; after 1993, emphasis was placed on direct aid measures to promote production and employment. The Spanish government intends at all costs to improve and strengthen the labour market (reflected in a very active legislation in 1994) and the competitiveness of enterprises. It grants subsidies for productive private sector investments according to the localisation of the enterprises and the scale of the problems. The map of the priority zones was approved by the EU in September 1995. The state industrial credit bank developed specific lines of credit for SMEs in the regions the previous year.

The cabinet is responsible for granting subsidies of over one million Pesetas. It receives recommendations from a general council. Subsidies of less than one million Pesetas remain the responsibility of the Minister of the Economy and Finance. In practice, the Minister delegates this responsibility to the Secretary of State for the Budget, which receives recommendations from an ad hoc working party. These subsidies cover the following activities: extractive industries, manufactures and services, including tourism. Their primary aim is to create jobs. Other criteria involved are, in order of importance: the use of local materials, technological interest and the advantages for the locality. Most of the subsidies have been granted to the South of Spain, particularly in Andalusia, Extremadura and the Canaries, to Gallicia in the North, and finally Castilla and "Ceuta and Melilla", two poor Spanish regions in North Africa adjoining Morocco.

The regional governments try to accede to the European Commission Structural Funds. Between 1994 and 1999, the most disadvantaged regions, those with a per capita income of less than 75 per cent of the European average, will enjoy an amount of structural aid equivalent to twice the amounts they invested between 1989 and 1993. Available funds (in billions of ECU) will be for the following for the 1994-99 period:

- Objective 1 Regions: 48.9 (of which 26.3 are provided by the structural funds);
- Objective 2 Regions (1994-96): 3.48 (1.13 for the EU);
- Objective 5b Regions : 1.79 (of which 0.664 for the EU).

3. Financial resources

The budget for regional investment subsidies is decided by the Ministry of the Economy and Finance. In 1989 it amounted to Pts 17 200 million, then reduced somewhat in 1991 to 15 700 million and to 14 400 million in 1996.

SWEDEN

1. Institutional framework

In Sweden the central and regional levels of government are responsible for designing and applying regional policy measures. Certain activities at the local level are also of importance.

Sweden's membership of the European Union has led to the creation of new institutions for delivery, monitoring and evaluation of programmes and projects. Implementation of these plans lies with management and monitoring committees.

At central level regional policy is usually revised every four years. A Regional Policy Bill is expected in the autumn of 1997 when the government will present its views on goals, guidelines, measures, etc. to parliament. All ministries have responsibility for action to achieve the regional policy goals. The government sets the economic framework for the coming year in the annual budget and sometimes adjusts the regional policy measures.

The National Board for technical and Industrial Development (NUTEK) is the central authority responsible for regional aid to enterprises and for technical transfers to the regions and to enterprises.

The Rural Advisory Board is responsible for initiating special projects in sparsely populated areas and for evaluating the efforts undertaken by other authorities. The Swedish Institute for Regional Research (SIR) is responsible for initiating research projects in this field.

At regional level the County Administrative Board has the main responsibility for the implementation and co-ordination of regional policy. Sweden has 24 counties and from 1998 21 countries. Each County has an institution which gives advice and support to SMEs. This institution is a subsidiary of ALMI Företagspartner AB. It is financed by the government and by the counties.

At local level, municipal activities are very important. They provide appropriate social services in the fields of education, welfare, residential and urban planning, cultural activities, etc. Activities in favour of enterprises are taking on increasing importance, but local authorities are not allowed to grant subsidies to enterprises.

2. Main orientations

The aims of regional policy in Sweden are to give people access to employment and services and to provide them with a good environment whatever part of the country they live in. It is a matter of promoting a fair distribution of wealth between people in different regions, balanced demographic growth, and rational production to ensure satisfactory and sustainable growth.

The county administrative boards are empowered to grant loans and subsidies, and they receive special resources from the central government to promote regional development. It is the very sparsely populated ultraperipheral regions of the North which receive the greater part of the resources.

In the areas where the regional problems are most acute there are possibilities for aid to enterprises in the form of localisation grants, transport subsidies and employment grants, and also in the form of reduced social insurance contributions and support for intangible investments (product development, marketing, etc.). The aid is divided into areas 1 and 2. Area 1 is that in which problems are most serious and where enterprises can obtain the maximum aid; population density here is about one inhabitant per km^2. In area 2, the problems are less serious and the maximum aid granted is less than in area 1; the population density is at least 6 inhabitants per km^2. The assisted areas cover approximately 54 per cent of the country but represent only 7 per cent of the population.

3. Recent developments

Within the framework of “a new regional industrial policy”, the government requested the governors of the 23 counties of Sweden to actively participate in developing this initiative. The principal task was to bring together the vast range of actors at the regional development arena in each of the counties in order to investigate and discuss new and alternative avenues for collaboration. The exercise was based on the assumption that improved co-operation among different sectors and agencies at regional level would lead to a better resource use and , hence, improvement of regional business and employment development.

Governors presented their first reports in December 1996. Most documents underlined the importance of a strategic regional development thinking which departs in the county’s current situation. For example, a region undergoing industrial structural change, or an extremely sparsely populated area, must have a different approach to regional industrial development than a part of the country with a more differentiated business structure and labour market.

The reports from the governors show that there are a number of interesting, ongoing processes in the regions. In short, the following preliminary conclusions could be drawn:

- Support to bottom-up processes stimulates mobilisation and creativity among regional and local actors.

- There is a growth potential in the regions that is not possible to fully identify from the capital of the country.

- Improved co-operation between local and regional actors reveal the needs for improvement in cross-sector collaboration.

4. Financial resources

For the year 1997 the breakdown of the regional development budget is as follows:

Million Swedish kronor	
Regional development measures	1 338
Regional development loans	390
Coverage of credit guarantees losses	13
Social insurance reduction	420
Employment grants	235
Transport subsidies	384
Rural Policy Advisory Board	24
SIR (regional development research)	8
European Regional Development Fund	915
Total	**3 726**

Source: Ministry of Industry and Trade

The regional policy budget is only a small part of the total contribution to regional development in Sweden. Sir has estimated that some SEK 100 billion, i.e., one-fifth of total state budget, is distributed over the country in a regional perspective. In Sweden this is known as "the big regional policy" to distinguish it from the specific regional development measures which are known as "the small regional policy".

SWITZERLAND

1. Institutional framework

In Switzerland there are three levels of regional action: the Confederation, the *cantons* (26) and the communes (3 022). Superposed on this structure are 54 "regions". Though the region is the basic unit for regional policy, it is not a political entity in the same way as the three levels of government. The region has a general assembly, an executive committee, working parties and a general secretary, but it has no sovereignty (power to levy taxes or enact laws).

A series of Acts, Federal Orders and guidelines have, from 1974 to the present, gradually come to crystallise in a regional policy rich in specific instruments to co-ordinate the regional activities of other federal departments. At federal level, the Federal Office for Industry, Crafts and Trades and Labour (OFIAMT) is responsible for the implementation of regional policy measures. At cantonal level, regional policy has led the cantons to adopt powers and introduce important support measures. For example, industrial implantation and the promotion of enterprises are essentially the responsibility of the canton. At local level, a network of "micro-regions" makes it possible to adjust regional policy to local particularities and promote intercommunal co-operation.

2. Main orientations

The Confederation's regional policy is being reoriented in stages with the aim of improving the competitiveness of the regions through promoting the exploitation of regional potentials, ensuring national cohesion, and maintaining the quality of the decentralised habitat. It is for the regions themselves to determine and take full advantage of their potential. The Confederation ensures co-ordination with sectoral policy action. Federal regional policy is thus moving away from the role of distributing and rebalancing development to become an integral part of a balanced and durable overall economic policy. This implies a panoply of differentiated instruments which take account of various economic and institutional aspects. New regional policy measures now fit into this framework.

In addition to loans to enterprises, direct subsidies and aid for the development of infrastructures, indirect aid is also important in Switzerland, taking the form of guarantees, contributions to debt service, tax reductions, compensation measures and aid for the implantation of enterprises.

On 6 December 1992, Switzerland voted against joining the European Community. The latter will nevertheless have impacts on the country: possibly increased regional disparities due the concentration of economic activities in the densely populated regions of the plateau and in the frontier zones.

The Federal Council, therefore, proposed, in its programme of legislation for 1991-95, to revitalise the market economy, and in this context give a new orientation to its regional policy, emphasising:

- regional co-ordination of federal and cantonal activities;
- decentralisation of the tasks and powers of implementation;
- insertion of regional policy in the European "context";
- reinforcement of the competitiveness of SMEs (SMEs=competitiveness approach rather than SMEs=job creation);
- openness to and support for foreign enterprises coming in;
- continued particular attention to mountain regions;
- more selective aid for disadvantaged regions;
- support for innovation projects.

In April 1994 the Federal Council presented the "measures aimed at strengthening regional economic structures and the attractiveness of the Swiss economic area", a regulation which, once adopted by Parliament, will supersede the "Order instituting financial aid in favour of economically vulnerable regions". This old Order, which expired in February 1994, was extended by urgent Decree in June 1994 until 30 June 1996. The new system provides for direct financial aid to economically vulnerable areas, the promotion and co-ordination of advertising of the Swiss economic area abroad and support for information to SMEs on the internal European market.

A "Federal Decree on the financing of the transfrontier co-operation activities of the cantons and regions" in the framework of the European Union INTERREG II initiative for 1995-99 was adopted by the Parliament in 1995.

The Federal "Act on investment aid in mountain regions (LIM)" is at present being revised and a new "Federal Order instituting additional measures for structural change in rural areas (RegioPlus)" is now in the consultation stage. This latter is intended to promote joint development initiatives in rural areas, based on better use of local and regional resources.

3. Financial resources

The regional policy budget at Confederation level for 1993 was as follows:

	Million Swiss Francs
Aid for investment in mountain regions	47
Planning of regional development projects	4
Guarantees and contributions to debt service	5
Credits for hotels and resorts	5
Measures for economically vulnerable regions	8
Total	**69**

Source: Federal Office for Industry, Crafts, Trades and Labour, 1995.

In total however, investment aid to mountain regions certainly exceeded SF 1 billion over period 1975-92. In 1991, the federal Parliament increased its contribution and extended the period of the Aid Fund for investments in mountain regions (LIM) to the year 2000. Thus, with the new resources this Fund will have some SF 1.6 billion to spend by the year 2000.

The peripheral and economically vulnerable regions, for their part, benefited from financial aid in the order of SF 500 million between 1979 and 1992.

On top of all this comes special aid for holiday resorts: some SF 191 million in loans and 323 million in guarantees between 1982 and 1992.

4. Trends

The general regional policy conditions have changed considerably over the past fifteen years and these changes can but accelerate in the future. Part of the Confederation's work in the regional policy field is based on structures which have been in place for twenty years or so: the present review was thus very necessary.

The Federal Council requested the OFIAMT to co-ordinate the preparation of this reorientation of regional policy to make it pro-active, efficient, flexible and of nation-wide scope.

TURKEY

1. Institutional framework

Turkey is a country with many regional disparity problems. It has, therefore, been trying to reduce them since 1960, but serious social and economic disparities still remain. Although many measures have a regional content there is still no regional policy and an institutional reorganisation oriented towards regional development has yet to come. Turkey is working hard at this, with a view to convergence with the policies and regulations of the European Union, which the country aspires to join. There are many adjustment problems, particularly in terms of a real subsidiarity in favour of the regions, statistical indicators and priority zoning.

2. Main orientations

The seventh five-year Plan will cover the period 1996-2000 and will contain provisions relating to regional development. The Plan will aim to consolidate national unity, reduce the imbalances between regions, raise the level of prosperity of the disadvantaged regions to that of the national average. Projects will be planned for the interior of the country, with priority for the East and Southeast of Anatolia. The emphasis will be on information services, entrepreneurship and the co-operative spirit. In view of the differences between regions, multisectoral programmes adapted to the characteristics of each will be introduced. Multi-functional Regional Centres will be set up to give guidance. Activities in favour of SMEs will be stepped up in the priority regions as will those aimed at exports. Rural development, urban development and durable development will be the watchwords.

The priority regions which exist at present for the purposes of regional development cover 45.5 per cent of the country and some 28 per cent of the population. The biggest investments in these regions concern energy and irrigation in the first place, then basic infrastructures, communications, education, health and security.

A number of incentive measures exist to attract private sector investment to the regions, in particular the priority regions. These measures include, among others, subsidies, exemption from customs duty, export aid, reductions of duties and taxes, aid for R&D, the environment and crafts.

UNITED KINGDOM

1. Institutional framework

The United Kingdom was the first western European country in history to concern itself with regional problems and try to solve them through implementing a regional policy. This was in 1934, when measures were introduced to combat the extreme unemployment in the industrial regions in crisis.

England has a regional industrial policy administered, for the most part, by the Department of Trade and Industry (DTI) and its regional offices. Other ministries also have programmes with a regional content. Similar administrative structures exist in Scotland, Wales and Northern Ireland under the authority of the respective Secretaries of State. In each country Government-funded development agencies are responsible for implementing measures to achieve regional development objectives; for example, English Partnerships, Scottish Enterprise, the Welsh Development Agency, the Industrial Development Board and the Local Enterprise Development Unit in Northern Ireland.

2. Main orientations

The competitiveness framework

The central themes of the Government's work at national, regional and local level have been set out in two White Papers on Competitiveness: *Helping Business to Win*, published in May 1994 and *Forging Ahead*, published in May 1995.

The first Competitiveness White Paper covered a range of regional and local initiatives, including the creation of what will become a national network of Business Links and the establishment of Regional Supply Offices. It included a commitment to the continuing vigorous and effective promotion of the United Kingdom as a location for internationally mobile investment and the use of Regional Selective Assistance to complement this effort.

The second White Paper acknowledges the importance of pursuing competitiveness in a regional and local context. It sets out three parallel objectives at regional and local levels:

- Every part of the country should assess its strengths and weaknesses to enable national policies to take account of local needs.

- There should be close and effective local partnership between Local Authorities, other local organisations, such as the Training and Enterprise Councils and the private and voluntary sectors. These partnerships are encouraged through the Single Regeneration Budget, by the mechanisms for attracting European Structural Funds support and the increasing value of co-ordinated action by central government and local partners to secure internationally mobile projects.

- Government services and support for business should take account of the needs and circumstances of each area.

In the Assisted Areas the availability of Regional Selective Assistance can contribute to each of these objectives, complementing local competitiveness initiatives, including regeneration initiatives, by helping to attract industrial and commercial investment.

Development in regional industrial policy

There have been important developments in regional industrial policy and the context in which it is operated since the 1983 White Paper, *Regional Industrial Development* and the 1988 White paper, *DTI -- the Department for Enterprise*. The 1983 White Paper stated that regional industrial policy, which was then largely based on an automatic grant regime, fulfilled three roles: it helped to reduce regional imbalances in employment opportunities; enabled the United Kingdom to compete effectively for internationally mobile investments; and, on the assumption that some parts of the country faced difficulties in adjusting to changes in economic circumstances, it could help encourage a business climate conducive to a high rate of innovation, as well as successful new firm formation and the development of indigenous potential within the Assisted Areas, with the long term objective of self-generating growth in these areas.

The 1983 White Paper argued that while an economic case for regional industrial policy could still be made, it was not self-evident. The Government believed that the case for continuing the policy was principally a social one with the aim of reducing, on a stable long term basis, regional imbalances in employment opportunities. Automatic grants (Regional Development Grants) were maintained but with a stronger link to job creation. The 1988 White Paper announced an increasing emphasis on policies designed to achieve improvements in the managerial skills and strategies of businesses, and a shift to discretionary regime of regional grants. Regional Development Grants were abolished, and discretionary Regional Selective Assistance grants, which had previously formed a relatively small element of regional industrial policy, became its main instrument.

More recently, there have been four key developments:

- *Unemployment patterns have changed*. Regional imbalances have narrowed but there are still disparities at the more local level. The Government is committed to the effective geographical targeting of regional support and has introduced two major changes. First, the map of the Assisted Areas (eligible for Regional Selective Assistance) was revised in 1993, largely on the basis of unemployment statistics but also using other measures. The unemployment measures included current unemployment rates, the persistence of unemployment rates above the national average over recent years, and long term unemployment. The other measures included, for each local labour market, estimates of the future jobs gap (the estimated increase in labour supply less the predicted employment increase over an assumed period), inner city and urban problems, distance from main markets, activity rates, and known problems not yet reflected in the unemployment statistics. The new map included for the first time key industrial areas in London. Since 1989, the map designating the principal areas eligible for support from the

European Regional Development Fund (revised in 1994) has been different from, though similar too, the Assisted Areas map.

- *There is increased competition for internationally mobile industrial and commercial projects*. The Government has continued to attach great importance to the attraction of inward investment and the United Kingdom has a strong record of success in attracting foreign companies to establish. The United Kingdom has over 40 per cent of the stock of all United States and Japanese investment into the European Union. The most important factors in attracting investors to the United Kingdom are our deregulatory approach to burdens on business, low business taxes, and low non-wage labour costs, which form part of the economic environment which is friendly to business. The Government will continue to press the European Commission to limit subsidies to prevent competitive bidding for internationally mobile projects. Where it has been essential, Regional Selective Assistance has been made available within tailored packages to help secure projects. These packages also include English Partnerships or similar agencies' involvement in site provision and tailored training programmes through the Training and Enterprise Councils.

- *The Government has strengthened its efforts to help regenerate areas suffering serious unemployment and other structural problems, including deprived inner urban areas.* The Government Offices for the English regions brought together the regional operations of the Departments of Trade and Industry, Environment, Employment and Transport, to provide a more coherent and flexible approach to the delivery of national programmes and a single point of contact for local businesses, including businesses seeking Regional Selective Assistance or other forms of assistance. These Offices also have a key role to play in managing the Single Regeneration Budget, which has brought together into a new coherent whole, twenty programmes targeted at regeneration. The Budget includes English Partnerships, which itself brought together the previous Derelict Land and City Grant and English Estates programmes, to promote the regeneration of derelict, vacant and under-used land and property in England. Similarly, the Scottish, Welsh and Northern Ireland Departments are able through their territorial coverage to provide an integrated approach to regeneration.

- *The Government has developed new "challenge" mechanisms to encourage the formation and development of local partnerships and a coherent approach to regeneration.* The new approach was successfully pioneered in the City Challenge initiative and is now incorporated in the Single Regeneration Budget. Since then, the Government has launched Rural Challenge, to improve the competitiveness of rural areas and in February 1995 launched Regional Challenge, which sets aside around 12 per cent of the European Structural Funds for the best ideas in the most eligible areas. Regional Selective Assistance can complement partnership initiatives by helping to attract and retain industrial and commercial investment, including inward investment.

3. Financial resources

Expenditure on regional industrial policy through regional assistance to industry has been:

	£ million	
	Great Britain	Northern Ireland
1990-91	497.3	134.9
1991-92	427.8	138.3
1992-93	364.0	119.1
1993-94	394.4	133.3

Source: OECD (DTI), 1995.

In addition, there is support for urban and rural development by Department of the Environment and other Departments. In England, for example, the amount allocated to the Single Regeneration Budget for area regeneration for 1995-96 was of the order of £ 1.3 billion.

4. Trends

Four main trends underlie and define the United Kingdom's approach to regional development policy described in the foregoing paragraphs. These are severe budgetary stringency, competition for grant, partnership with the private sector and simplification of services to SMEs.

UNITED STATES

1. Institutional framework

The United States considers it possible to do without a regional policy at the federal level, relying more on the mobility of the population than on interventions by the national government to reduce the disparities, and prefer to leave it to the states and the local authorities to decide their own regional activities.

State governments and local authorities are encouraged to promote regional development and to develop the potential of their regions. There is, thus, a myriad of initiatives of all sorts, without much co-ordination between them.

Thus, in the United States there is no regional policy as such at federal level, but only regionalised sectoral policies. It can be taken for granted that public policies and federal economic development programmes are delivered throughout the country, to promote economic development, the development of enterprises and the development of communities.

2. Main orientations

It is difficult to identify "the" regional policy of the United States, it being so fragmented and heterogeneous, but the federal government has various aid budgets to promote regional initiatives.

Concerning economic development, the federal economic development programmes seek to use public and private funds to maintain or increase employment by investment in infrastructures or in specific enterprises located in disadvantaged regions. Assistance is also available for the preparation of local plans, training and access to business property, to enhance competitiveness and to promote promising local initiatives. The big provider of aid is the Economic Development Administration (EDA) of the Department of Commerce (DOC), which runs various subsidy programmes of a regional nature.

As regards enterprise development, the administrative simplification of rules and procedures, access to capital, the improvement of working conditions, worker skills and competitiveness are all subjects dealt with, but without any precise regional development aims.

As regards community development, efforts concern the maintenance and improvement of the quality of life of the present and future residents of the communities. The accent is on social problems such as housing, combating crime, public health. Community development is intended to restore the "human infrastructures" and neighbourhood networks in low income areas.

Apart from those administered by the Department of Commerce, the main sectoral initiatives with a regional impact are those coming under the Department of Agriculture. Mention should also be made of the initiatives of the Regional Commission of the Appalachians and the Tennessee Valley Authority.

As far as regional development is concerned, the Department of Agriculture (USDA) seeks to maintain and create jobs in rural communities (less than 50 000 inhabitants). There are some forty agencies responsible for programmes and over 2 000 regional bureaux across the United States. The greater part of the funds available are used for loans to small rural communities of 20 000 people or less. The Department also guarantees loans to local entrepreneurs. These loans are often reserved to small rural communities and accompanied by subsidies help borrowers meet their repayments.

The Regional Commission of the Appalachians, founded in 1995, covers West Virginia and the twelve other states along the Appalachians, i.e., the area from the South of New York to the North of the Mississippi. It has set itself the task of improving the physical infrastructure and developing the human and industrial capital of the Appalachian region. Programmes have been set up to improve highways, drainage systems, etc. The Commission has also set up programmes to train labour, support enterprises and promote tourism.

3. Financial resources

The resources sought in Federal Budget for October 1995 to September 1996 for allocation to all the economic development programmes amounted to some $ 1.184 billion for economic development, enterprise development and community development.

The breakdown of this sum is as follows:

	US$ million
Department of Agriculture	161
Housing and urban development	250
Small enterprises	10
Tennessee Valley	17
Appalachians	65
Community development financial institutions	184
Department of Commerce	438
Defence Dep. (adjustment)	59

Source: Federal Budget, 1995.

To this should be added US R&D expenditure on technology policy. This expenditure is enormous, amounting to a total in the order of $ 161 billion, from all sources, in 1993 for example. The federal government covered 42 per cent, industry 52 per cent, and the states; universities and non-profit organisations about 6 per cent. It goes without saying that this R&D expenditure can have significant regional impacts, though here again the programmes are not part of a regional policy.

4. EDA regional development measures

The Commerce Department's Economic Development Administration (EDA) is authorised by the Public Works and Economic Development Act of 1965, as amended. The agency was created to provide assistance in alleviating substantial and persistent unemployment and underemployment in economically distressed areas and regions. It also has responsibility for addressing economic dislocations resulting from sudden, severe job losses. EDA also administers the Trade Adjustment

Assistance (TAA) Programme for Firms and Industries authorised by the Trade Act of 1974, as amended.

EDA assistance is directed to areas experiencing or threatened with substantial economic distress. This distress can arise from a number of factors -- high unemployment, low income levels, large concentrations of low-income families, low labour force participation rates, significant decline in per capita employment, substantial outmigration due to lack of employment opportunities, unusually high numbers of business failures, sudden major layoffs or plant closures, and drastically reduced tax bases. The distress may be the result of a number of primary causes -- basic economic conditions, defence cutbacks and base closures, and natural disasters. EDA assistance under the TAA programme is directed to firms and industries suffering loss of employment and sales due to increased imports of like or directly competitive products.

EDA's programme tools include Public Works and Development Facilities, Technical Assistance and Research, Planning Grants, Economic Adjustment Assistance, Defence Conversion, and Trade Adjustment Assistance. These tools can be used singly or in combination to help distressed areas understand and address local economic development challenges in order to restore economic growth. EDA recognises that economic development is primarily a locally driven activity, so the agency's programmes are designed to help communities develop and implement their own economic development strategies. The resulting investments are designed to support business retention, expansion and creation efforts in order to diversify economies and generate and retain long term, private-sector jobs.

Public works and development facilities

EDA's Public Works and Development Facilities programme provides grants to distressed communities for the construction, expansion, or renovation of projects which offer substantial employment potential, improve the capacity for economic growth through provision of the infrastructure needed for industrial or commercial development, or provide essential services for the economic base. Projects funded include industrial and high-tech business parks, skill training facilities, industrial access roads, water and sewer improvements, business incubator buildings, harbour and airport facilities, and other facilities needed to encourage private sector investment. Grants made under this programme require a minimum local contribution ranging between 20 and 50 per cent depending upon the severity of distress in the recipient area. $ 195 million was initially appropriated for Public Works and Development Facilities investments in fiscal year 1995.

Technical assistance and research

EDA's Technical Assistance and Research programmes are designed to help build the capacity of EDA's constituents to plan, develop, and implement economic development initiatives. By building capacity at the local, regional and national level, EDA improves the ability of the economic development profession to address the long-term economic development challenges of distressed communities. These programmes provide the information, data and know-how for evaluating or shaping specific projects and programmes in economic development and can be used to evaluate the feasibility of potential economic development investments.

EDA's three major technical assistance programmes (local, national and university centre) are designed to strengthen the capacity for addressing the long-term economic development challenges of distressed communities. The local technical assistance programme funds projects, such as feasibility studies or economic analysis, that primarily benefit a specific, limited geographic area. The national technical assistance programme supports and documents the demonstration of new and innovative economic development tools and techniques and disseminates information to practitioners on current trends and practices in economic development.

The university centre technical assistance programme supports efforts by colleges and universities to provide management and technical assistance to public sector and non-profit organisations undertaking community revitalisation efforts or to private sector firms implementing technology transfer. EDA's technical assistance programmes in terms of eligible applicants and activities. All of the technical assistance programmes generally require a minimum non-federal matching share of 25 per cent of total projects costs. The fiscal year 1995 appropriation for technical assistance programmes was $ 10.9 million.

The agency's Research and Demonstration Programme is carried out through external research undertaken through contract, grant or transfer arrangements, and in-house studies and analyses. Specific research areas are selected to address emerging and anticipated economic development problems and seek to identify approaches suitable for providing long-term economic vitality and stability. The review and dissemination of available research results, appropriate analytical tools and data are an important part of the programme. Through its basic and applied economic research and programme evaluation activities, the agency provides valuable information to guide programme policy decisions at the Federal, State, regional and local levels, $ 500 000 was appropriated for this Programme in fiscal year 1995.

Adjustment assistance

EDA's Economic Adjustment Assistance Programme helps communities develop and implement strategies for restructuring and rebuilding their economic base in anticipation of, or response to, changes such as natural disasters, Federal environmental and regulatory actions, sudden and severe economic dislocations and plant closings. Among the activities funded under this programme are recovery strategy development, infrastructure improvements, business development and financing programmes including revolving loan funds, organisational development activities, and market or industry research and analysis. Projects require a 25 per cent local match. The fiscal year 1995 appropriation for Economic Adjustment Assistance Programmes was $ 45 million.

Planning grants

Planning programmes are a key element in the economic developments process. Planning involves assessment of the local economic situation and preparation of local investment strategies that guide resource allocation and project development. Planning forms the basis for the technical assistance, infrastructure, business finance and other investments proposals communities develop to support private sector job creation. EDA planning grantees develop the capacity to effectively use the investment resources available from Federal, State, regional and local sources to implement the strategies they have developed. The agency provide planning assistance to economic development districts, Indian tribes, redevelopment areas, states and urban areas. Most planning grants require a 25 per cent local match but grants to Indian tribes may be provided without a local contribution. There was $ 26.4 million appropriated to support planning activities in fiscal year 1995.

Defence conversion

Defence Conversion Assistance Programme resources are used to enable areas whose economies are adversely impacted by reductions in defence spending to efficiently restructure and/or strengthen their economic base through redeployment of their defence created assets. Areas experiencing closure of a military base, a defence related Department of Energy facility and/or reductions in defence procurement are eligible for assistance. Support is provided to these communities to develop and implement strategies to restructure their economic base including marketing or feasibility studies, conversion or development technical assistance for affected businesses, technology development and transfer programmes, infrastructure improvements to permit re-use of former military facilities, and financing programmes for business restructuring or development. Defence Conversion assistance is provided using all of EDA's programme authorities and requires a 25 per cent local contribution. Defence Conversion efforts were appropriated $ 120 million in fiscal year 1995.

The adjustment assistance

Trade Adjustment Assistance (TAA) provides assistance to US manufacturing firms and industries injured by increasing imports of like or directly competitive products. The programme helps manufacturers regain the ability to compete in the global marketplace, providing a comprehensive approach to the restructuring of companies injured because of US free market policies. Unlike other US trade remedies, the TAA programme does not require any import restraint or market disruption that would have negative impacts on US consumers.

The programme funds a network of twelve Trade Adjustment Assistance Centres (TAACs) which provide hands on assistance to trade injured companies including assistance in establishing programme eligibility, conducting an analysis of firm operations to identify their strengths, weaknesses and opportunities for recovery, preparing an adjustment strategy to guide the firm's recovery, and helping pay for expert consultants to assist in implementation of the company's strategy. Trade-injured firms receive assistance in establishing their eligibility at no cost but pay at least 25 per cent of the cost of developing their adjustment strategy and an average of 50 per cent of the cost of implementing the strategy. The TAA programme is also authorised to fund industry assistance projects to undertake activities of benefit to a whole industry that is suffering import injury, usually with the industry paying 50 per cent of the cost. One industry project was funded in fiscal year 1995. The fiscal year 1995 appropriation for Trade Adjustment Assistance programme activities was $ 10 million.

Annex

Table A1. **Change in the number of US businesses with employees by major region**

Fiscal year 1992-93

	Firms at end of FY 1993	Change from FY 1992 (per cent)	New and Successor Firms		Terminations	
			Number in FY 1993	Change from FY 1992 (per cent)	Number in FY 1993	Change from FY 1992 (per cent)
Total US	**5 847.979**	**1.97**	**915 783**	**16.7**	**805 229**	**14.8**
Region I	357 578	0.34	45 832	12.9	44 605	12.5
Region II	633 818	1.13	87 409	13.9	83 103	13.2
Region III	566 430	1.37	80 903	14.5	73 262	13.1
Region IV	994 497	2.78	181 752	18.8	154 856	16.0
Region V	993 856	2.43	124 049	12.8	100 488	11.9
Region VI	582 656	2.80	100 142	17.7	84 253	14.9
Region VII	293 785	0.76	43 610	15.2	37 604	13.1
Region VIII	216 045	3.96	39 696	17.9	31 468	15.1
Region IX	912 074	0.22	149 216	16.3	151 234	16.5
Region X	285 657	5.93	59 122	21.9	43 128	16.0

Note: SBA (Small Business Administration, US) Regions are defined as follows:
Region I: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont;
Region II: New Jersey, New York;
Region III: Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia;
Region IV: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee;
Region V: Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin;
Region VI: Arkansas, Louisiana, New Mexico, Oklahoma, Texas;
Region VII: Iowa, Kansas, Missouri, Nebraska;
Region VIII: Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming;
Region IX: Arizona, California, Hawaii, Nevada;
Region X: Alaska, Idaho, Oregon, Washington.

Source: SBA, 1994.

Table A2. **New Business Incorporation by SBA Region, 1992 and 1993**

	1992	1993	Change in %
Total US	**666 800**	**706 540**	**6.0**
Region I	28 686	30 233	5.4
Region II	97 486	99 438	2.0
Region III	89 158	94 961	6.5
Region IV	152 366	159 223	4.5
Region V	102 794	111 900	8.9
Region VI	60 978	62 037	1.7
Region VII	22 545	24 221	7.4
Region VIII	25 315	26 999	6.7
Region IX	62 523	70 262	12.4
Region X	24 949	27 266	9.3

Source: SBA, 1994.

Table A3. **Change in Business Failures and Bankruptcies by SBA Region SBA (1992-93)**

	Business failure		Change	Bankruptcies		Change
	1992	1993	1992-93	1992	1993	1992-93
Total US	**97 096**	**85 982**	**–11.4**	**69 848**	**61 799**	**–11.5**
Region I	6 214	5 330	–14.2	3 943	3 103	–21.3
Region II	10 710	9 759	–8.9	6 203	5 774	–7.2
Region III	8 778	7 054	–19.6	6 898	6 404	–7.2
Region IV	14 385	12 237	–14.9	11 231	8 830	–21.4
Region V	12 460	10 003	–19.7	10 159	9 172	–9.7
Region VI	10 784	9 834	–8.8	7 827	6 136	–21.6
Region VII	4 276	3 205	–25.0	2 644	2 110	–20.2
Region VIII	2 935	2 693	–8.2	2 537	2 104	–17.1
Region IX	22 825	22 415	–1.8	14 698	15 269	–2.0
Region X	3 702	3 452	–6.8	3 438	2 897	–13.3

Source: SBA, 1994.

Table A4. **Principal indicators for the regions in the Community (NUTS 2)**

	Population density inhab/km^2 (1991)	Unemployment rate 1993	Industry share of employment	GDP per capita average 1989-91
Belgium	3.28	8.8	30.5	104.4
Flemish Community	428	6.6	33.3	105.7
Région Wallone	194	12.0	28.1	84.2
Brussels	5 922	11.3	20.2	164.4
Denmark	120	10.6	27.4	106.3
Hovedstadsregionen	601	9.8	–	126.7
Ost for Strorebaelt. Ex, Hovedst.	84	11.3	–	90.0
Vest for Storebaelt	86	10.9	–	99.4
Germany	225	7.0	40.3	117.9
Baden-Württemberg	280	4.1	46.2	124.5
Bayern	164	3.9	41.4	120.9
Berlin	3 876	9.2	31.0	116.3
Brandenburg	88	12.0	36.4	36.0
Bremen	1 691	8.7	29.2	149.7
Hamburg	2 209	5.6	26.2	194.5
Hessen	276	4.6	37.3	1 409.0
Mecklenburg-Vorpommern	80	14.1	28.4	33.0
Niedersachsen	158	6.4	36.9	101.9
Nordrhein-Westfalen	514	6.6	42.4	110.8
Rheinland-Pfalz	193	4.7	41.0	100.9
Saarland	419	7.4	38.3	107.6
Sachsen	255	11.5	47.2	33.0
Sachsen-Anhalt	137	13.6	42.5	35.0
Schleswig-Holstein	168	5.3	29.1	96.9
Tühringen	158	12.8	47.0	30.0
Greece	77	7.8	25.7	48.1
Voreia Ellada	58	6.4	26.3	45.8
Kentriki Ellada	45	7.3	21.4	46.1
Attiki	910	10.0	29.6	52.3
Nisia	57	4.9	18.1	45.2
Spain	77	21.3	33.0	75.7
Noroeste	98	17.8	28.3	63.5
Noreste	59	18.6	39.8	88.4
Madrid	612	16.5	28.6	94.4
Centro	25	21.0	31.4	62.0
Este	174	19.6	40.0	87.0
Sur	82	29.7	27.5	59.6
France	105	10.3	30.0	111.6
Ile-de-France	898	8?9	25.3	166.8
Bassin Parisien	71	10.5	34.3	101.9
Nord-Pas-De-Calais	320	13.2	36.3	89.8
Est	105	8.2	38.0	102.2
Ouest	88	10.0	28.8	93.7
Sud-Ouest	58	10.2	26.0	98.0
Centre Est	97	10.5	34.8	106.2
Méditerranée	100	13.5	22.1	95.5
Departement d'Outre-mer	17	10.3	–	38.4

Table A4. **Principal indicators for the regions in the Community (NUTS 2)** *(cont.)*

	Population density inhab/km^2 (1991)	Unemployment rate 1993	Industry share of employment	GDP per capita average 1989-91
Ireland	51	18.4	28.9	68.0
Italy	188	11.2	32.2	102.7
North-West	179	8.7	37.0	118.8
Lombardia	371	4.5	43.1	134.7
North-East	162	4.9	37.5	118.3
Emilia-Romagna	177	4.7	35.1	127.5
Centro	140	7.9	34.7	106.7
Lazio	299	11.0	19.8	116.8
Campania	414	22.8	24.8	70.2
Abruzzi-Molise	104	13.1	27.3	87.8
South	151	17.6	22.9	68.1
Sicily	193	23.1	21.8	67.5
Sardegna	68	19.8	25.2	74.2
Luxemburg (Grand-Duché)	150	2.4	28.9	127.2
Netherlands	367	8.2	25.4	101.3
Noord-Nederland	140	10.6	26.8	100.2
Oost-Nederland	281	7;9	27.9	88.4
West-Nederland	623	7.9	20.5	109.1
Zuid-Nederland	457	8.0	33.4	97.3
Portugal	107	4.9	34.0	56.5
Continente	105	4.9	34.2	56.5
Acores	106	4.6	24.0	0.0
Madeira	318	3.4	32.9	0.0
United Kingdom	237	10.3	30.9	99.1
North	201	11.4	34.9	85.3
Yorshire and Humberside	323	10.2	34.8	89.0
East Midlands	258	9.0	38.0	94.5
East Anglia	165	8.4	29.2	99.8
South-East	648	10.5	25.4	119.0
South-West	198	9.6	29.0	94.8
West Midlands	405	10.9	39.1	90.5
North-West	872	10.5	33.3	90.0
Wales	139	9.7	32.7	83.2
Scotland	65	10.1	30.2	92.8
Northern Ireland	113	15.0	28.0	75.1
EU12	153	10.4	33.2	100.0
Weighted standard deviation	**154**	**5.3**	**6.6**	**24.2**

Source: Eurostat, 1994.

Table A5. **Manufacturing direct export and employment by State, 1983 and 1991**

In current dollars

	1983				1991			
	Direct export (US$ million)	% of shipments	Export employment (thousand)	% of manufacturing	Direct export (US$ million)	% of shipments	Export employment (thousand)	% of manufacturing
Alabama	1 850.5	5.6	14.0	4.2	4 077.3	8.4	24.1	6.6
Alaska	574.4	22.6	3.0	27.5	1 612.2	44.3	6.3	43.8
Arizona	1 349.1	9.6	18.1	12.4	3 071.9	13.4	17.7	10.2
Arkansas	1 575.1	7.6	8.7	4.6	2 407.5	7.7	15.2	6.9
California	16 579.5	8.1	152.6	7.7	39 299.3	13.6	230.7	11.8
Colorado	1 526.2	7.9	18.5	9.6	2 581.3	9.6	17.3	4.8
Connecticut	3 203.5	10.1	32.6	7.8	7 015.8	17.5	47.0	13.9
Delaware	704.0	7.4	2.8	4.2	1 152.0	9.7	3.3	5.3
Florida	3 343.4	8.0	26.3	5.8	7 747.8	13.1	48.7	10.3
Georgia	2 255.4	4.2	19.0	3.8	6 776.5	8.2	37.7	6.9
Hawaii	172.8	5.1	0.5	2.2	442.1	11.6	1.8	9.3
Idaho	367.2	6.3	2.3	4.7	2 008.7	20.5	7.7	12.7
Illinois	6 362.0	5.5	52.8	5.2	14 441.7	9.5	80.9	8.3
Indiana	4 004.4	5.8	30.5	5.3	8 875.7	9.1	47.9	8.1
Iowa	1 806.6	5.7	12.2	6.0	3 620.0	8.0	16.6	7.4
Kansas	1 144.4	4.2	12.2	6.0	2 930.6	8.0	14.5	7.8
Kentucky	1 536.9	4.7	9.4	3.8	5 029.2	9.4	22.0	8.1
Louisiana	3 356.5	6.3	9.2	4.9	5 524.3	8.7	13.7	7.8
Maine	481.1	5.3	4.4	4.0	1 262.9	10.8	9.7	9.9
Maryland	1 060.4	4.7	4.4	4.0	2 824.4	9.5	9.7	9.9
Massachusetts	4 889.3	9.7	49.9	7.9	9 518.7	15.4	63.9	13.0
Michigan	10 391.0	9.0	58.0	6.6	16 509.9	11.5	81.9	9.5
Minnesota	2 578.9	6.9	22.3	6.2	4 868.0	9.1	32.9	8.6
Mississippi	1 173.1	5.8	7.7	3.8	2 766.8	8.9	15.3	6.5
Missouri	2 869.1	6.4	19.7	5.0	5 468.8	8.2	27.5	6.9
Montana	88.3	2.4	0.5	2.5	142.8	3.8	0.6	3.0
Nebraska	735.1	5.3	4.7	5.4	1 587.9	7.6	6.6	6.6
Nevada	101.3	5.7	1.0	5.1	208.9	7.4	1.8	7.0
New Hampshire	487.3	6.1	6.7	6.2	1 296.5	13.3	9.0	10.5
New Jersey	3 669.5	5.1	32.4	4.3	6 447.4	7.5	39.0	6.6

Table A5. **Manufacturing direct export and employment by State, 1983 and 1991** *(cont.)*

In current dollars

	1983				1991			
	Direct export (US$ million)	% of shipments	Export employment (thousand)	% of manufacturing	Direct export (US$ million)	% of shipments	Export employment (thousand)	% of manufacturing
Nouveau Mexico	75.5	1.9	0.4	1.3	614.6	7.6	2.5	6.1
New York	8 779.7	7.0	77.9	5.6	16 516.5	11.1	98.8	9.4
North-Carolina	4 525.8	6.4	33.0	4.1	10 625.3	9.0	54.9	6.8
North-Dakota	151.1	6.4	0.9	6.4	282.9	9.3	1.1	6.4
Ohio	8 352.7	6.7	68.4	6.3	20 408.1	11.7	96.4	9.2
Oklahoma	1 605.2	6.8	11.4	6.2	1 965.6	6.9	12.3	7.3
Oregon	1 481.7	7.8	15.7	8.4	4 127.7	13.4	24.0	11.5
Pennsylvania	5 498.0	5.3	56.1	5.0	10 886.9	8.1	73.6	7.7
Rhode Island	502.3	6.1	7.3	6.4	675.0	10.2	8.2	8.7
South-Carolina	1 748.1	5.7	14.9	4.1	5 247.4	11.0	27.8	7.9
South-Dakota	152.8	4.8	0.7	2.7	329.2	7.3	2.6	8.6
Tennessee	2 769.5	6.3	19.4	4.2	6 138.5	8.8	37.2	7.5
Texas	11 486.1	6.9	76.1	7.7	22 764.6	11.2	133.9	14.5
Utah	512.0	5.5	5.5	6.7	1 303.3	9.0	9.4	9.2
Vermont	377.2	10.2	4.7	10.6	533.5	9.2	3.7	8.6
Virginia	2 740.2	6.9	19.4	4.8	6 121.1	9.9	26.3	6.4
Washington	7 590.4	20.1	42.8	15.6	25 311.9	37.2	81.2	23.0
West-Virginia	725.5	7.2	4.0	4.5	1 406.0	11.3	5.5	7.0
Wisconsin	2 941.5	5.3	25.4	5.3	6 917.0	8.6	41.6	7.8
Wyoming	16.6	0.8	0.1	1.1	65.3	2.4	0.4	4.1

Source: US Bureau of the Census, *Annual Survey of manufactures* data, 1983 et 1991.