

Policy Paper

Regional Policy in the Danube Region – Benefiting from Heterogeneity

Essential issues

Differences in the level of economic development between the Danube Region countries are big. Yet, the differences in economic development between the individual regions in these countries are even bigger. Thus, GDP per head (in PPS) in the poorest region is only 13 percent of the GDP of the richest region in 2010. This enormous heterogeneity, and not only in terms of GDP, is a major challenge for economic policy. Without any action this development gap is likely to increase in the future. Consequently, a sound Danube Region strategy is well advised to consider the countries as the sum of very different regions all having their own needs to develop and prosper. There is little dispute on “what” should be done, yet, it is the “how” that is the more difficult question to answer. For improving the implementation of policies, research suggests four points: a) listen to the local population, b) lift the financing restrictions, c) give the regions tools and a voice, and d) use the experience of other countries.

About the project

Coordinator of Priority Area 8 (“To support the competitiveness of enterprises”) of the EU Strategy for the Danube Region (EUSDR), the Ministry of Finance and Economics Baden-Wuerttemberg, has commissioned a study on the socio-economic assessment of the Danube Region with financial support from the Directorate-General for Regional and Urban Policy of the European Commission. The aim of the study is to document the socio-economic development of the Danube Region with respect to the goals of the EUSDR and the overall objectives of the EU growth strategy “Europe 2020” and to identify strengths and weaknesses, to propose areas of activity and to provide recommendations for the future strategic orientation of the EUSDR. In a first step, extensive data has been collected on competitiveness, entrepreneurship and SMEs and cooperation in the Danube Region and a set of preliminary recommendations has been formulated. In the second part, these recommendations will be developed further with the help of expert interviews and focus groups in order to provide a strategic contribution of a programme strategy for the Danube Region. The study is conducted by the Centre for European Economic Research (ZEW), Mannheim in cooperation with the Institute for Applied Economic Research (IAW), Tübingen, and the Vienna Institute for International Economic Studies (wiiw)



Regional differences in economic development

The Danube Region can be split into 65 EU NUTS-2 or equivalent regions. Although each of the regions has its own characteristics, and thus would deserve an individual treatment, it is reasonable, to group them a) by their population density into urban, intermediate and rural regions and b) by country groups. Table 1 illustrates the distribution of regions across these groups, showing that urbanisation is considerably higher in the more prosperous countries.

Table 1: Number of regions, by country group and type of region

	urban	intermediate	rural	Total
AT, DE	7	7	6	20
CZ, HU, SI, SK	4	11	6	21
BG, RO, HR	1	4	11	16
RS, BA, ME	1	3	4	8
Total	13	25	27	65

Source: Eurostat, national statistics. Calculation and illustration: wiiw.

While the richest regions in the Danube Region are well above the EU-27 average in terms of GDP per head, the income levels in the poorest regions is only at around one quarter of the EU average (Figure 1). Notably, most of these regions are found in the Accession Countries, but there are also a considerable number of regions in the Member States Area 3 falling in this category.

Differences between the urban and rural regions, on the other hand, are equally large in all countries. While urban regions generally show high levels of prosperity, GDP level and standard of living is much lower in rural regions.

A further striking difference between the regions is in the share of agricultural employment (Figure 2). It is low in the more prosperous countries

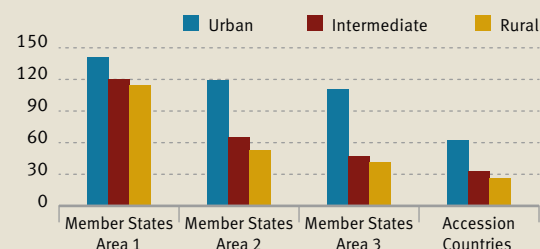
and regions, while agriculture is still an important source for employment, in the Member

States Area 3 as well as in the Accession countries. Given that a large share of this agricultural employment is either subsistence farming or of otherwise low productivity, this may constitute a problem for longer run development. Not only is the high share of agriculture accompanied by a general lack of employment opportunities in other sectors, but also by a lack of capital accumulation inhibiting the development of regional industries or services. In addition, such regions are usually not the preferred location for foreign investors, which in sum leaves a quite pessimistic picture.

The flip side of the medal is that due to the large agricultural share, the employment shares of industry (see Figure 3) and services (see Figure 4) tend to

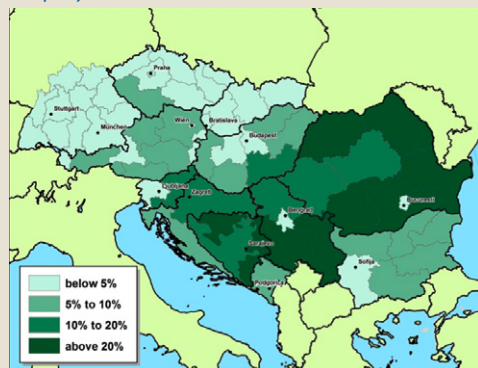
Urban regions have higher levels of prosperity than rural regions

Figure 1: GDP per head at PPS 2010 (in % of EU-27 average), by subregions of the Danube Region and type of region



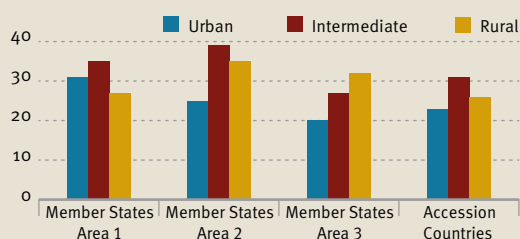
Note: Member States Area 1: DE, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME. Data for the Accession Countries refer to 2011. Source: Eurostat, national statistics. Calculation and illustration: wiiw.

Figure 2: Share of agriculture in total employment 2011



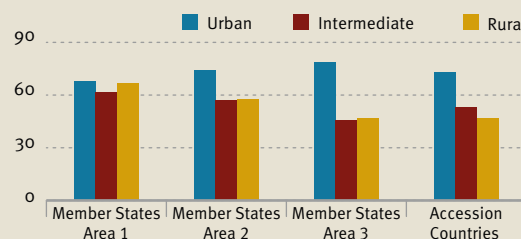
Source: Eurostat, national statistics. Calculation and illustration: wiiw.

Figure 3: Share of industry in total employment 2012, by subregion of the Danube Region and type of region



Source: Eurostat, national statistics. Calculation and illustration: wiiw.

Figure 4: Share of services in total employment 2012, by subregion of the Danube Region and type of region



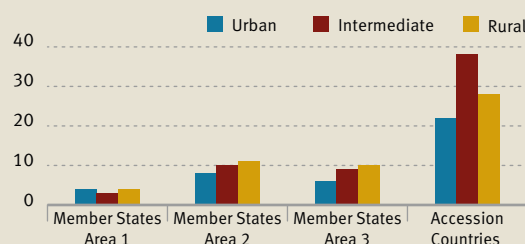
Notes: Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME.
Source: Eurostat, national statistics. Calculation and illustration: wiiw.

be lower in the intermediate and rural regions in the countries of Member States Area 3 and the Accession Countries.

While in most of the regions of the Danube Region the share of industry is high, even compared to EU standards, the largest differences in employment shares between countries and regions are in services employment. In Germany and Austria, services employment tends to be high (above 60% of total employment) and relatively equally distributed across the three types of regions. In the other country groups services employment is only strong in the urban regions.

Unemployment rates are by far highest in the regions of the Accession Countries (Figure 5). This gives an indication of the extent to which industries and services in those regions are unable to create jobs. Moreover, unemployment rates in the intermediate regions are considerably higher than in the rural regions as agriculture, especially subsistence farming, has a dampening effect on unemployment rates. At the same time it can be assumed that hidden unemployment is high.

Figure 5: Unemployment rates 2012 (in % of population aged 15 and older), by subregions of the Danube Region and type of region



Notes: Member States Area 1: DE, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME.
Source: Eurostat, national statistics. Calculation and illustration: wiiw.

Development policy building on heterogeneity

The main challenge, from a regional perspective is the enormous heterogeneity of regions in the Danube Region. Economically strong regions, either capital cities or industrialised regions, are opposed by weak agricultural regions. Without any action the gap between these regions is likely to increase in the future, given some fundamental differences in attractiveness and economic potential. These increasing economic gaps will have repercussions on the social and also environmental sphere.

Current policies seem to be aware of the regional challenges, as the EUSDR action plan highlights infrastructure, environment, knowledge and institutions as the main policy targets. More specific recommendations are developed by the PA8 working group on 'Competitiveness in Rural and Urban Areas' stating that areas of policy actions could be: a) food production and supply chain, b) renewable sources of energy, c) sustainable use of natural resources in rural areas and d) sustainable use of economic and natural assets for development tourism. The more problematic issue, however, is putting such policies into practice. The SIRA (Smart and Innovative Rural Areas)

platform has already identified some problems in the implementation of policies:

- ▶ Missing links between theory and practice
- ▶ Poor networking among institutions
- ▶ Support from and capacity of local administration
- ▶ Lack of funding, low financial support
- ▶ Missing recognition of agriculture and of rural areas

Overall it seems that there is little dispute on “what” should be done to improve the situation of the less favoured regions in the Danube Region. Yet, it is the “how” that is the more difficult question to answer. Policy is therefore advised to take into account a couple of points:

Listen to the local population: a) Identify local needs; b) find out what prevents them to make use of policies; and c) reveal ideas on local development.

Lift the financing restrictions: Identify the financial capabilities of regions, counties, villages to implement the policies.

Give the regions tools and a voice: First investigate whether there are institutions dealing with local issues especially institutions that are run by the people concerned that could bridge the gap between academia and practice and have the political power to put initiate and implement policies.

Use the experience of other Danube Region countries: Even in Austria, the more agricultural regions have much more difficulties in generating employment and income for their population than more industrialised regions. Over time, political, administrative, economic and structure have evolved to deal with such problems which can be adapted in other Danube Region countries.

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