European Union
Regional Policy and Cohesion

Fact Sheet

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Sixth Periodic Report on the regions: Summary of Main Findings

inforegio

On 3 February 1999, the European Commission adopted the Sixth Periodic Report on the socio-economic situation and development of the regions of the European Union ("The Sixth Periodic Report"). This is the last in a series of reports published by the Commission every three years. It is designed to provide an overview of the cohesion process, regional policy and the challenges facing the regions. Henceforth, the Commission will publish triennial reports on Economic and Social Cohesion, in accordance with Article 130B of the Maastricht Treaty, which will incorporate the type of analysis previously found in the Periodic Reports. The first "Cohesion Report" was adopted in 1996.

The Sixth Periodic Report updates much of the information contained in previous Reports and in the First Cohesion Report (see above). However, many chapters also contain new data and analyses of the implications for regional economies and labour markets of issues such as increasing globalisation, the evolution of the information society, transition to the euro and EU enlargement eastwards.

This document summarises the report, which is divided into four sections:

- Main trends in the regions over the last decade in terms of the economy, the labour market and demographic changes;
- Analysis of competitiveness in the regions and the main factors underlying competitiveness;
- Changes in the regions assisted by the EU Structural Funds;
- Developments in the 10 accession countries of Central and Eastern European (CEE) countries and Cyprus.

The Sixth Periodic Report on the social and economic situation and development of regions in the EU arrives at an important moment both for the European Union as a whole and for Cohesion policies in particular. The transition to the Euro has already started and there is the prospect of enlargement towards Central and Eastern European countries. This occurs against a backdrop of increasing globalisation and a 'second industrial revolution' based on information technology.

All of these changes have important implications for regional economies and labour markets and this report provides background information on social and economic trends in the regions.

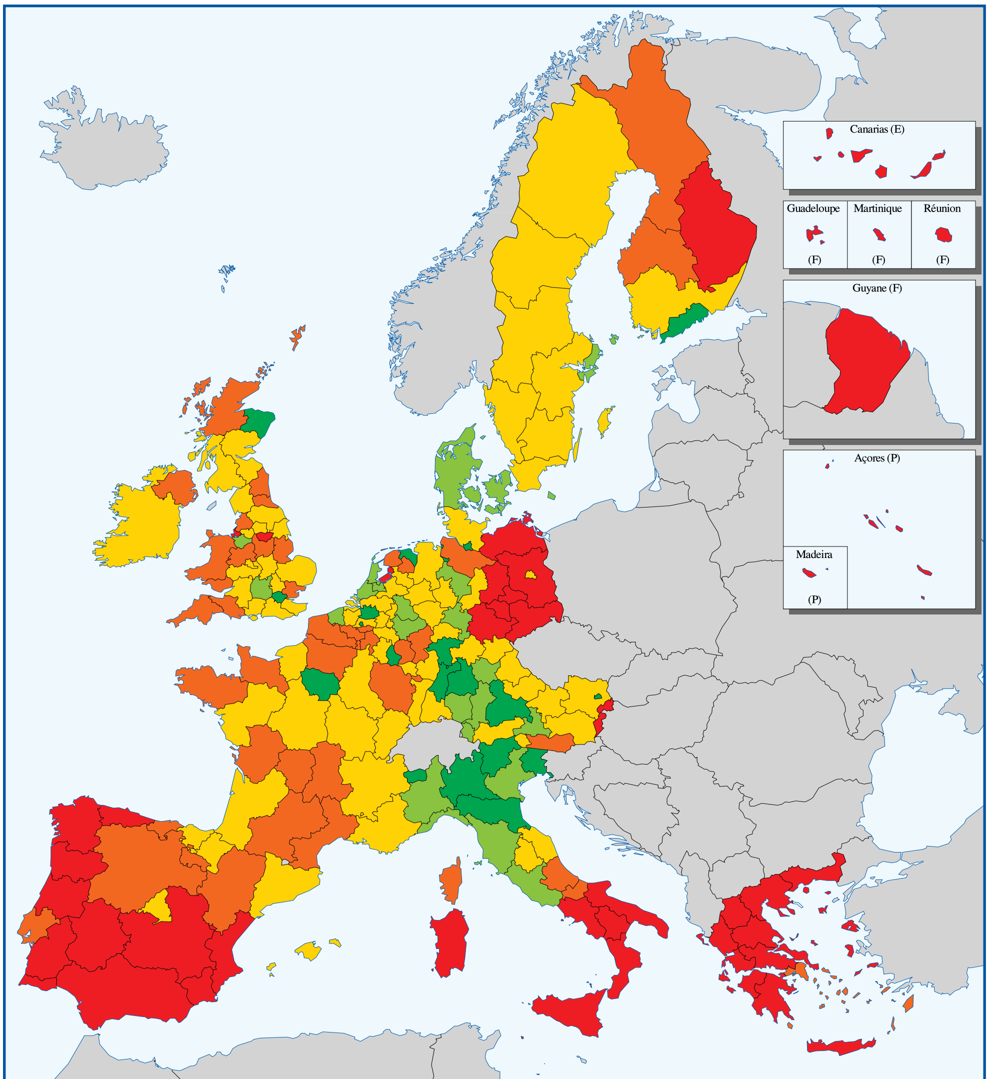
1. The situation in the regions

In previous Periodic Reports and in the Cohesion Report, the first signs of real convergence of lagging regions were detected, but the message was mixed, with some indicators showing convergence while others were unclear. The evidence is now unambiguous: the GDP, or output, per head of poorer regions is converging towards the EU average. Over the 10 years 1986 to 1996, the following changes are evident:

- GDP per head in the 10 regions where this was lowest increased from 41% of the EU average to 50%, in the 25 poorest regions, it rose from 52% to 59%.

- GDP per head in the four Cohesion countries went up from 65% of the EU average to 76.5%, and, according to forecasts, to 78% in 1999.

This is an unusually rapid pace of convergence, both from an historical and international perspective. It has



GDP per head by region (PPS), 1996

Index

- < 75
- 75 - 90
- 90 - 110
- 110 - 125
- >= 125

EUR15 = 100
Standard deviation = 26.9
F (DOM) : 1994

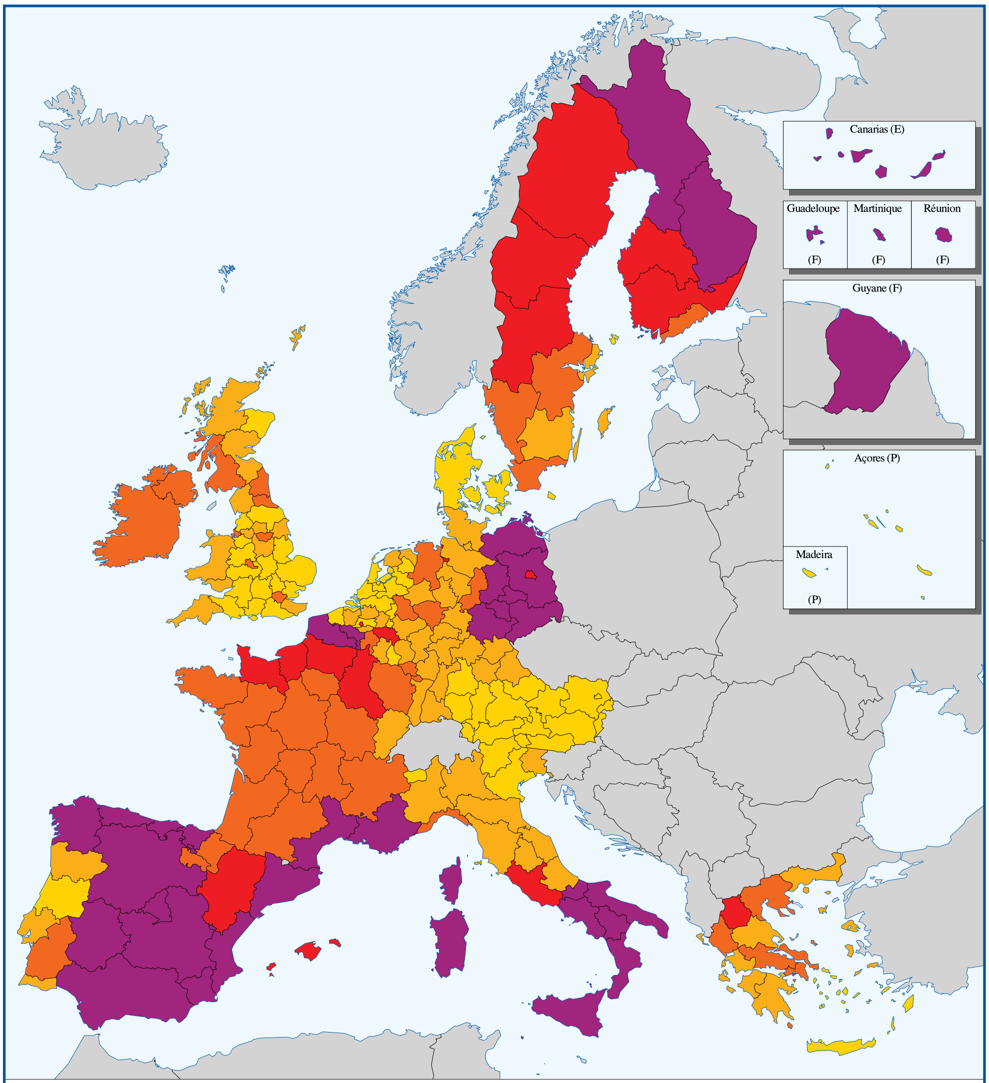
Source : Eurostat

0 100 500 km

been driven largely by closer European economic integration, but the Structural Funds have also played an important part. As an example, exports and imports between the Cohesion Four and other EU Member States have doubled in real terms over the past decade and now amount in each case to around 120 billion ECU.

However, the above figures also show that significant disparities remain; even where catching up is occurring relatively rapidly, the full process can take a generation or more. In addition, although most regions are experiencing at least some convergence, their performance varies widely. The more favoured lagging regions, particularly capital cities such as Dublin or Lisbon, are catching up much more rapidly than their rural hinterlands. This underlines the importance of reviewing the distribution of assistance periodically to ensure that limited resources are concentrated in the regions that most need it.

Although regional output is converging, the situation regarding **unemployment** is less positive. Despite cyclical recovery since 1994, unemployment in



Unemployment rate by region, 1997

% of labour force

- < 6.20
- 6.20 - 9.20
- 9.20 - 12.20
- 12.20 - 15.20
- >= 15.20
- no data

EUR15 = 10.7
Standard deviation = 6.02

F (DOM) : 1996

Source : Eurostat

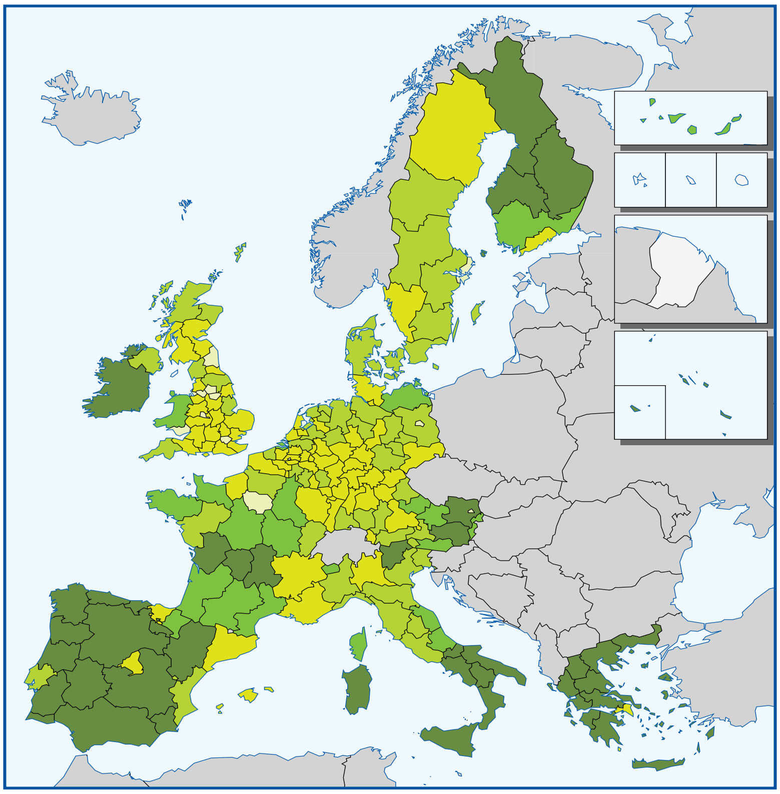
0 100 500km

the EU still stood at just under 10% in late 1998, meaning that there were 16.5 million people without work who were looking for jobs.

Increasing unemployment over the past 25 years or so has affected some regions much more than others and some have hardly been affected at all. The 25 regions with the lowest rates of unemployment are much the same now as 10 years ago and their rates have remained steady at around 4%. By contrast, rates in the most affected regions have climbed from 20% to nearly 24%.

A particular concern is the scale of long-term unemployment; 49% of the unemployed have been out of work for a year or more, 30% for at least two years. A closely related problem is the exclusion from the labour market of certain individuals and social groups - such as many women and young people. These forms of unemployment are particularly worrying, since they seem largely resistant to general improvements in the economy. The 25 regions with the highest unemployment rates are particularly affected by such problems. In these regions, the long-term unemployed account for 60% of

Employment by sector, 1997



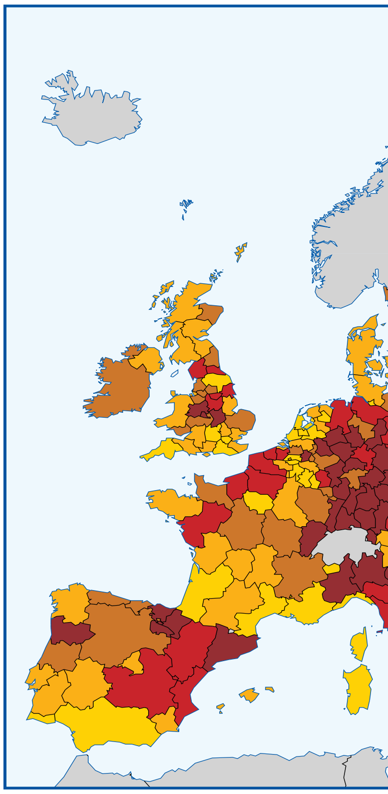
Agriculture

% total employment

- < 0.80
- 0.80 - 3.60
- 3.60 - 6.40
- 6.40 - 9.20
- >= 9.20
- no data

EUR15 = 5.0
Standard deviation = 5.5

Source : Eurostat



Industry

% total employment

- < 24.15
- 24.15 - 27.65
- 27.65 - 31.15
- 31.15 - 34.65
- >= 34.65
- no data

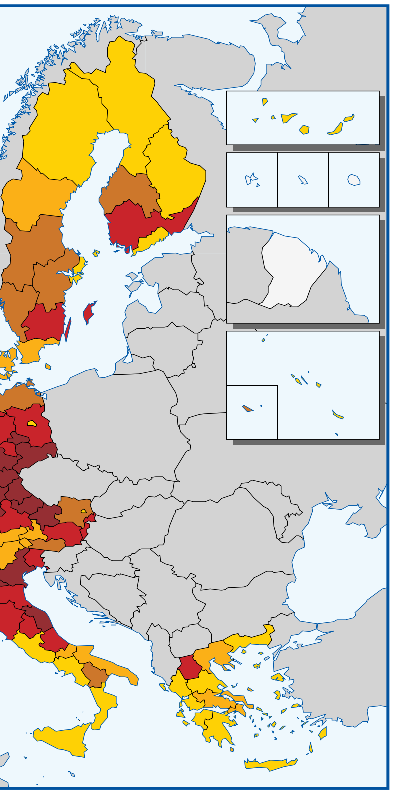
0 250

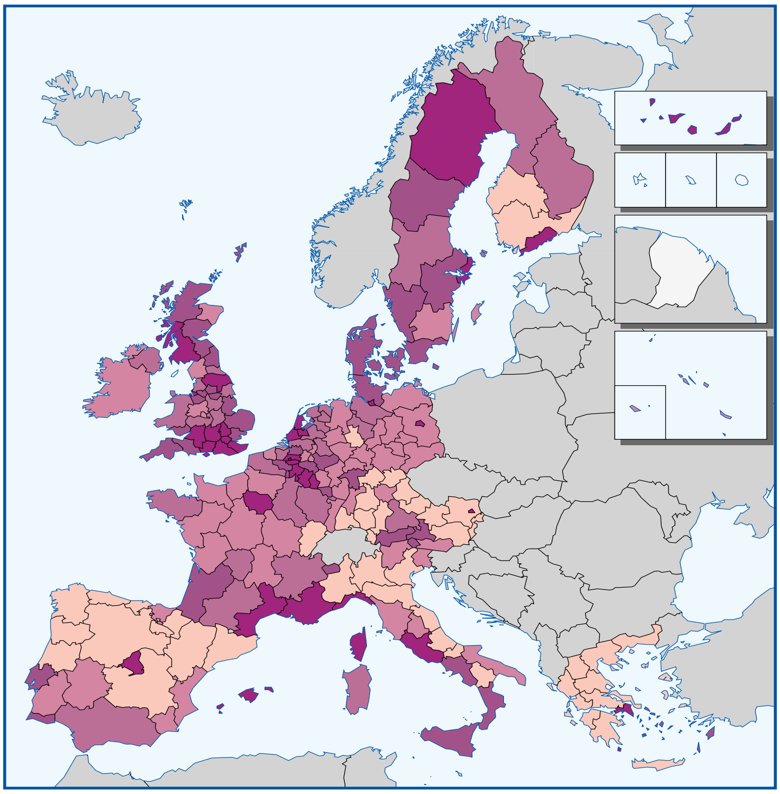
total unemployment (as against 30% in the 25 regions with the lowest unemployment). Moreover, only 30% of women of working age have a job and youth unemployment rates average 47%.

The resumption of growth alone will not resolve such problems. What is needed is an integrated approach combining a strengthening of the economic base with training measures aimed at improving the skills of those disadvantaged in the labour market and getting them into work. In addition, where so many women and young people are excluded from pursuing working careers and from contributing to the generation of economic wealth, mainstreaming of policies aimed at them is not an option but a necessity.

The regions of the EU can be roughly divided into three types (though some regions do not fit neatly into a single category):

- Large urban service centres. These regions typically perform well in terms of both GDP and employment. The 25 regions most concentrated in services have an output per head





Services

% total employment

- < 59.15
- 59.15 - 63.25
- 63.25 - 67.35
- 67.35 - 71.45
- >= 71.45
- no data

EUR15 = 29.4
Standard deviation = 7.0

Source : Eurostat

1250 km

EUR15 = 65.3
Standard deviation = 8.2

Source : Eurostat

Population and labour force

With regard to demographic trends, three factors are of particular importance: fertility, mortality and migration. As low birth rates and increased life expectancy result in an ageing of the population and a corresponding reduction in the number of young people entering the labour market, questions such as the ability of the workforce to adapt to technological change will become increasingly important. The Union has sought to address this problem through the promotion of initiatives such as lifelong learning, first launched in the European Commission's White paper on Growth, Competitiveness and Employment, and followed by the European Year of Lifelong Learning in 1996.

27% above the EU average. Since the service sector is the main source of employment in the EU - jobs in market services in particular increasing by 12 million over the past decade - service centres generate significant employment opportunities, often extending well beyond the region concerned. Nevertheless, there can still be serious unemployment blackspots within the cities themselves.

- Industrial regions, the economy of which tends to be centred on medium-sized cities, which are often part of a network. The fortunes of these regions depend strongly on the health of the particular industries located there. Since much of the sector is performing well, manufacturing regions are often successful; the 25 regions in which employment is most concentrated in manufacturing have an output per head 8% above the EU average and unemployment of over 1.5 percentage points below the average. However, a minority of industrial regions particularly affected by restructuring have high rates of unemployment, sometimes (but not always) combined with moderately low GDP per head.

- Rural regions, with relatively high employment in agriculture. These regions generally perform reasonably well in terms of unemployment, although problems may show up in other ways, eg in terms of high outward migration. However, some agricultural subsectors are low value-added and face significant restructuring pressures. The 25 regions with the very highest dependence on agriculture (and this can be extreme, covering anything up to 40% of the labour force) are particularly affected and have an average unemployment rate of 14.7%. This underlines the importance of facilitating diversification.

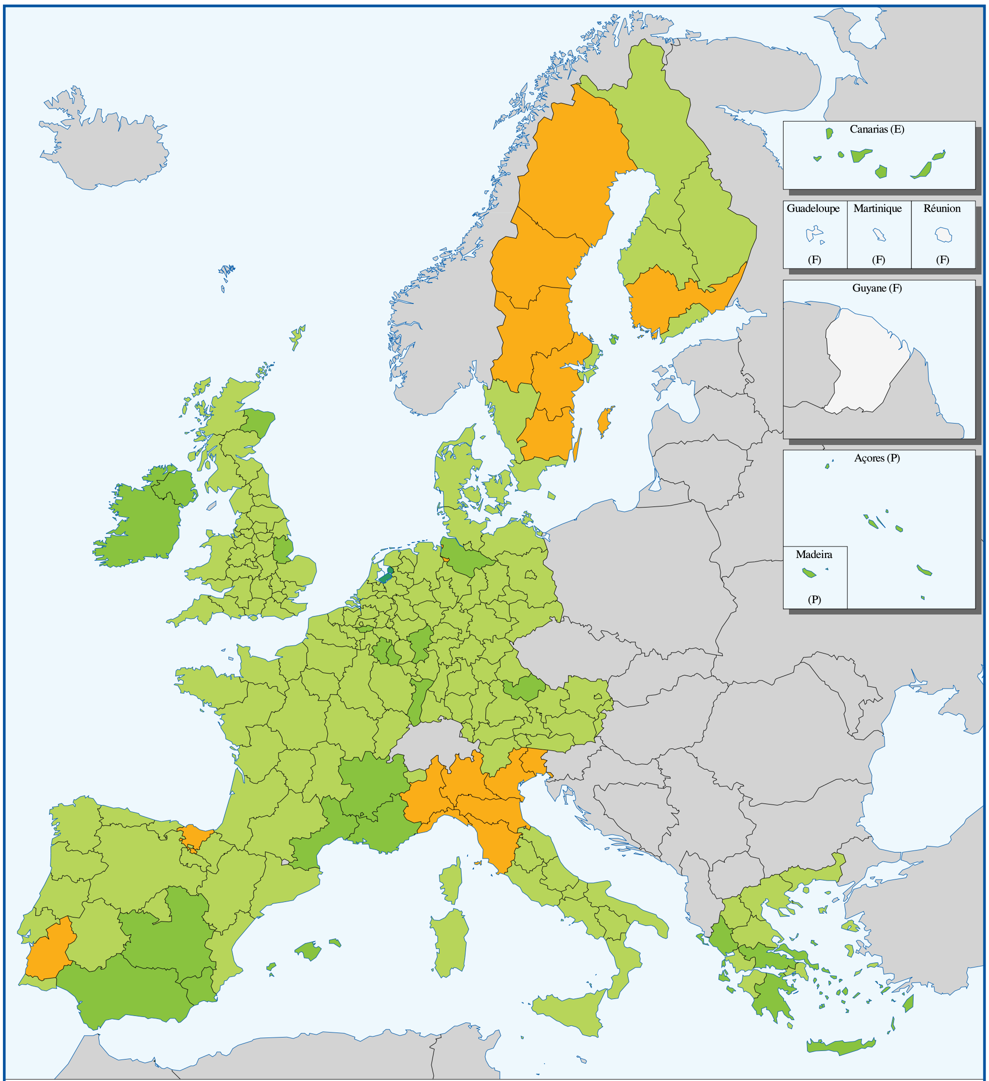
Policy must, therefore, be tailored to the different types of need in different regions. For regions undergoing restructuring, the main problem is unemployment, rather than low output and underdevelopment. Unemployment blackspots are often found in otherwise successful areas, despite the opportunities surrounding them. For these regions, an integrated approach is, therefore, needed, not just increasing local economic activity, for example, but equipping the people who live there, particularly those who are disadvantaged, to play a full part in the economy.

Demographic trends are likely to affect the EU labour market substantially in the long-term, and the report examines projections to 2025. Three factors stand out in particular:

- Low birth rates will mean an ageing of the population, with consequences for pensions as well as for health care. Over the next 5-10 years, this will be particularly pronounced in the Northern regions of Italy, Southern and Eastern Germany, Southern France and mainland Greece. By 2025, the effects will be most pronounced in Northern Italy and central France where the number of over-65s for every 100 people of working age will have nearly doubled, increasing to 40 or more. The number of over-80s, a critical determinant of the need for long-term care and the demands on the health service, will increase everywhere, but particularly in Greece, Spain and Italy, with consequent pressure on public budgets.

- Similarly, the labour force will continue to age, raising questions about its future adaptability to technological change. The provision of lifelong learning is, therefore, likely to become a more pressing issue in the future.

- Labour supply is projected to increase up to 2005, due mainly to increasing female participation rates and, less so, to continued inward migration. From then on, declining population of working age should begin to have an effect and the labour force is projected to start shrinking from around 2010 onwards. However, the distribution of the decline between regions means that it cannot be relied on to resolve regional disparities in labour market balance. In some regions with relatively low unemployment, notably in Northern Italy, labour supply may even start to decline in the next few years, possibly creating labour shortages, though it is also possible that growth in demand for labour would give rise to increased participation. In some high unemployment regions, notably in the Southern parts of Spain and France, labour supply is expected to go on rising for some time to come and is unlikely to help reduce unemployment in the medium-term.



Labour force: annual growth rates by region, 2000 to 2005

Annual % change (baseline scenario)

- < - 1
- - 1 - 0
- 0 - 1
- 1 - 2
- > 2
- no data

EUR15 = 0.54

Source : Eurostat

0 100 500km

Main regional indicators

Region	Economy: GDP/head (PPS), EUR15=100, 1996	Total unemployment rate (%), 1997	Long term unemployed, 1997 (% of total unempl.)
Eur 15	100.0	10.7	49.0
EUR 12	99.9	10.8	50.1
BELGIQUE-BELGIE	112.1	8.9	60.8
Reg. Bruxelles-Cap. / Brussels Hfdst. Gew.	173.1	13.5	61.9
Antwerpen	137.3	7.2	59.4
Limburg (B)	109.5	8.3	60.3
Oost-Vlaanderen	104.4	6.5	58.5
Vlaams Brabant	96.5	4.5	50.1
West-Vlaanderen	117.3	5.1	52.6
Brabant Wallon	89.1	7.9	51.4
Hainaut	80.7	15.4	67.2
Liège	99.0	12.2	63.7
Luxembourg (B)	96.4	6.8	50.9
Namur	86.4	11.4	62.8
DANMARK	119.3	5.7	25.2
DEUTSCHLAND	108.3	9.8	49.3
Stuttgart	135.2	6.1	48.4
Karlsruhe	125.7	6.6	45.5
Freiburg	109.1	6.2	44.6
Tübingen	114.4	5.7	41.5
Oberbayern	156.5	4.8	37.6
Niederbayern	96.8	5.5	29.1
Oberpfalz	99.6	6.5	41.3
Oberfranken	107.3	7.4	40.2
Mittelfranken	123.2	7.1	43.0
Unterfranken	104.3	6.4	42.5
Schwaben	110.4	5.8	39.1
Berlin	102.2	13.4	45.8
Brandenburg	66.7	17.2	54.5
Bremen	149.0	12.3	57.2
Hamburg	192.5	8.8	49.0
Darmstadt	171.3	6.7	47.0
Gießen	105.1	7.8	43.1
Kassel	115.6	9.0	49.3
Mecklenburg-Vorpommern	61.2	18.8	47.8
Braunschweig	106.8	11.4	64.2
Hannover	117.0	9.1	48.8
Lüneburg	83.3	8.0	46.3
Weser-Ems	98.6	9.2	49.3
Düsseldorf	119.4	9.6	58.5
Köln	113.4	8.3	54.3
Münster	94.8	8.6	51.8
Detmold	105.3	8.3	46.3
Arnsberg	104.5	9.7	57.4
Koblenz	88.8	6.8	38.9
Trier	84.8	6.3	40.6
Rheinhessen-Pfalz	100.6	7.7	51.1
Saarland	105.0	10.1	57.6
Sachsen	64.0	17.2	50.8
Dessau	55.1	21.5	51.4
Halle	68.4	19.9	50.0
Magdeburg	57.8	20.7	52.2
Schleswig-Holstein	102.5	7.6	42.1
Thüringen	61.2	17.6	45.8
ELLADA	67.5	9.6	55.4
Anatoliki Makedonia, Thraki	61.1	8.3	46.7
Kentriki Makedonia	67.4	9.2	48.8

Region	Economy: GDP/head (PPS), EUR15=100, 1996	Total unemployment rate (%), 1997	Long term unemployed, 1997 (% of total unempl.)
Dytiki Makedonia	61.8	13.8	61.9
Thessalia	62.7	7.5	63.8
Ipeiros	43.8	10.5	67.0
Ionia Nisia	61.9	6.2	46.5
Dytiki Ellada	57.7	7.9	65.6
Sterea Ellada	65.5	12.0	60.7
Peloponnisos	58.3	7.5	58.5
Attiki	76.8	11.6	55.6
Voreio Aigaio	51.7	7.1	54.4
Notio Aigaio	75.3	4.3	43.0
Kriti	72.5	4.3	48.8
ESPAÑA	78.7	21.1	51.5
Galicia	63.0	19.2	58.7
Principado De Asturias	73.6	21.2	65.6
Cantabria	76.9	21.1	64.3
Pais Vasco	92.3	18.8	61.2
Comunidad Foral De Navarra	98.1	10.0	42.0
La Rioja	89.0	11.8	52.0
Aragón	88.9	14.4	44.5
Comunidad De Madrid	100.6	18.4	57.5
Castilla Y León	75.9	19.9	52.5
Castilla-La Mancha	65.9	19.1	40.9
Extremadura	54.6	29.5	41.9
Cataluña	99.1	17.4	57.7
Comunidad Valenciana	73.8	21.4	44.1
Islas Baleares	97.0	12.2	39.4
Andalucía	57.2	32.0	47.3
Región De Murcia	67.2	18.3	46.2
Ceuta Y Melilla	72.3	26.4	71.6
Canarias	74.3	20.9	48.9
FRANCE	103.9	12.0	41.5
Ile De France	159.9	10.7	41.2
Bassin Parisien	92.7	12.6	42.6
Champagne-Ardenne	94.1	13.3	41.8
Picardie	84.7	14.2	40.5
Haute-Normandie	105.9	13.6	47.7
Centre	91.9	10.9	42.3
Basse-Normandie	88.9	13.2	41.4
Bourgogne	90.4	11.0	40.7
Nord - Pas-De-Calais	85.4	16.6	44.6
Lorraine	88.7	11.3	39.8
Alsace	105.1	7.8	29.3
Franche-Comté	92.7	9.1	37.4
Pays De La Loire	91.0	11.0	42.9
Bretagne	86.4	9.9	39.5
Poitou-Charentes	83.3	11.4	42.9
Aquitaine	92.1	11.9	43.1
Midi-Pyrénées	87.2	11.2	41.4
Limousin	81.3	9.2	36.7
Rhône-Alpes	100.4	10.5	39.5
Auvergne	83.7	11.0	42.6
Languedoc-Roussillon	78.3	17.8	44.5
Provence-Alpes-Côte D'azur	92.0	16.5	41.2
Corse	82.0	15.2	34.2
Guadeloupe	40.1	:	:
Martinique	54.0	:	:
Guyane	48.0	:	:
Réunion	45.7	:	:

Region	Economy GDP/head (PPS), EUR15=100, 1996	Total unemployment rate (%), 1997	Long term unemployed, 1997 (% of total unempl.)
IRELAND	96.5	10.1	56.0
ITALIA	102.7	12.3	66.2
Piemonte	117.5	8.7	61.6
Valle D'aosta	131.1	4.1	37.0
Liguria	119.1	10.2	64.5
Lombardia	132.5	6.2	56.2
Trentino-Alto Adige	127.9	3.8	30.0
Veneto	124.4	4.8	37.7
Veneto	124.4	4.8	37.7
Emilia-Romagna	132.7	6.7	33.9
Toscana	110.7	8.5	57.9
Umbria	97.9	8.2	63.0
Marche	106.4	7.1	53.4
Lazio	113.8	13.3	72.3
Abruzzo	89.6	8.8	62.7
Molise	78.6	17.2	65.0
Campania	65.9	26.1	79.3
Puglia	71.1	18.3	70.0
Basilicata	69.5	20.6	62.5
Calabria	59.2	24.9	67.6
Sicilia	65.7	24.0	73.7
Sardegna	72.5	20.5	68.4
LUXEMBOURG (GRAND-DUCHÉ)	168.5	2.5	34.6
NEDERLAND	106.8	5.2	48.2
Groningen	134.0	8.3	53.6
Friesland	87.3	6.4	61.8
Drenthe	87.4	5.6	63.3
Overijssel	93.6	5.1	48.3
Gelderland	95.1	4.6	44.1
Flevoland	74.9	5.1	68.8
Utrecht	120.0	4.1	29.2
Noord-Holland	120.6	5.3	45.4
Zuid-Holland	110.6	5.3	47.2
Zeeland	102.4	4.6	53.0
Noord-Brabant	107.1	4.6	49.7
Limburg (Nl)	97.8	5.4	50.6
ÖSTERREICH	112.3	4.4	33.0
Burgenland	71.5	3.8	26.9
Niederösterreich	96.4	3.4	36.0
Wien	166.6	5.9	53.9
Kärnten	89.8	5.8	21.7
Steiermark	90.4	4.8	39.6
Oberösterreich	102.2	3.0	24.9
Salzburg	121.3	3.9	4.3
Tirol	107.8	5.4	4.4
Vorarlberg	112.5	4.1	16.6
PORTUGAL	70.5	6.7	52.5
Norte	62.4	6.9	54.9
Centro (P)	60.9	3.4	46.6
Lisboa E Vale Do Tejo	88.5	7.9	53.7
Alentejo	59.7	10.4	38.6
Algarve	70.8	8.2	53.5
Açores	50.0	5.4	61.4
Madeira	54.5	5.4	54.3

Region	Economy GDP/head (PPS), EUR15=100, 1996	Total unemployment rate (%), 1997	Long term unemployed, 1997 (% of total unempl.)
SUOMI/FINLAND	96.9	14.8	27.5
Uusimaa	128.9	11.4	31.7
Etelä-Suomi	91.7	15.1	28.7
Itä-Suomi	74.1	18.7	24.5
Väli-Suomi	83.1	14.9	25.5
Pohjois-Suomi	82.7	18.6	23.5
Ahvenanmaa/Åland	118.6	4.6	9.7
SVERIGE	101.2	10.4	33.2
Stockholm	123.1	7.9	31.8
Östra Mellansverige	92.4	10.2	30.8
Småland Med Öarna	98.8	8.6	33.6
Sydsverige	92.9	11.9	38.2
Västsverige	97.6	10.4	35.1
Norra Mellansverige	97.0	12.3	27.7
Mellersta Norrland	99.3	13.0	32.2
Övre Norrland	96.9	13.3	34.3
UNITED KINGDOM	99.8	7.1	38.2
Cleveland, Durham	82.7	9.6	39.7
Cumbria	101.3	6.9	35.4
Northumberland, Tyne And Wear	86.1	9.9	42.3
Humberside	94.8	8.7	32.0
North Yorkshire	100.5	4.8	30.5
South Yorkshire	74.4	10.0	38.8
West Yorkshire	92.5	7.4	36.1
Derbyshire, Nottinghamshire	89.7	7.1	38.5
Leicestershire, Northamptonshire	101.7	4.8	33.5
Lincolnshire	89.6	5.7	30.2
East Anglia	99.5	5.5	32.5
Bedfordshire, Hertfordshire	102.2	4.1	35.1
Berkshire, Buckinghamshire, Oxfordshire	123.7	3.2	31.8
Surrey, East-West Sussex	104.5	4.1	38.4
Essex	87.2	5.7	37.8
Greater London	140.4	9.7	44.5
Hampshire, Isle Of Wight	103.5	4.7	36.4
Kent	91.8	6.3	35.4
Avon, Gloucestershire, Wiltshire	108.8	5.0	34.7
Cornwall, Devon	80.1	7.3	34.1
Dorset, Somerset	87.8	5.1	34.6
Hereford & Worcester, Warwickshire	100.0	4.6	31.0
Shropshire, Staffordshire	88.1	4.9	29.1
West Midlands (County)	93.4	9.4	44.2
Cheshire	113.3	5.4	29.2
Greater Manchester	91.3	7.4	33.8
Lancashire	87.8	5.7	26.0
Merseyside	73.1	12.1	44.9
Clwyd, Dyfed, Gwynedd, Powys	80.7	7.2	36.3
Gwent, Mid-South-West Glamorgan	84.4	7.8	34.9
Borders-Central-Fife-Lothian-Tayside	103.7	7.3	31.4
Dumfries And Galloway, Strathclyde	90.2	9.3	34.5
Highlands, Islands	80.1	8.4	31.2
Grampian	126.0	4.8	24.5
Northern Ireland	81.1	10.3	58.7

Source: Eurostat (REGIO) + calculations DGXVI
F (DOM) : GDP : 1994 figures

What is Competitiveness?

In the current economic debate, competitiveness is often viewed as a key indicator of success or failure of policy. Yet the concept of competitiveness, while relatively obvious when applied to firms, is less clear when applied to regions. In addition, the word 'competitiveness' can conjure up the impression of a win or lose situation, where one region benefits at another's expense, or where a region maintains competitiveness by huge cuts in wages or employment.

The challenge therefore is to develop a concept of competitiveness that avoids these problems, yet captures the idea that while most regions will have both strongly competitive and uncompetitive firms at any one time, there are common features within a region, such as infrastructure, human capital and public institutions, the quality of which affects all firms.

In this context, competitiveness is defined as "the ability of a region to generate, while being exposed to external competition, relatively high income and employment levels". In other words, for a region to be competitive, it is important to ensure both quality and quantity of jobs.

2. Competitiveness

Competitiveness has two main dimensions - productivity and employment. The EU is performing reasonably well on the former and badly on the latter; income and output growth of just over 2% over the last decade came mainly from increased productivity, which grew by almost 2% a year, while employment rose by less than 0.5% a year. This pinpoints the labour market in general and the need to increase the employment-intensity of growth, in particular, as significant challenges to competitiveness in the EU.

Lagging regions face the double challenge of catching up with the present, as well as adapting to the future. For some regions, notably in Ireland, Spain and Southern Italy, productivity is close to (or in the case of Ireland, above) the EU average and the main challenge is the generation of employment. Conversely, Portugal and the new Länder in Eastern Germany have relatively high employment rates, but in both, productivity would need to increase by 50% to converge to the EU average. In Greece, significant increases would need to take place in both productivity (by 40%) and employment (20%).

An unfavourable sectoral structure together with a lack of innovative capacity seems to be among the most important factors underlying lagging competitiveness, suggesting that the key development challenge in the regions affected is to improve the productive base and their potential for growth. Poor accessibility and low levels of education among the work force are often contributing factors to reduced competitiveness but, for the most part, regional disparities in these respects are less important than they were.

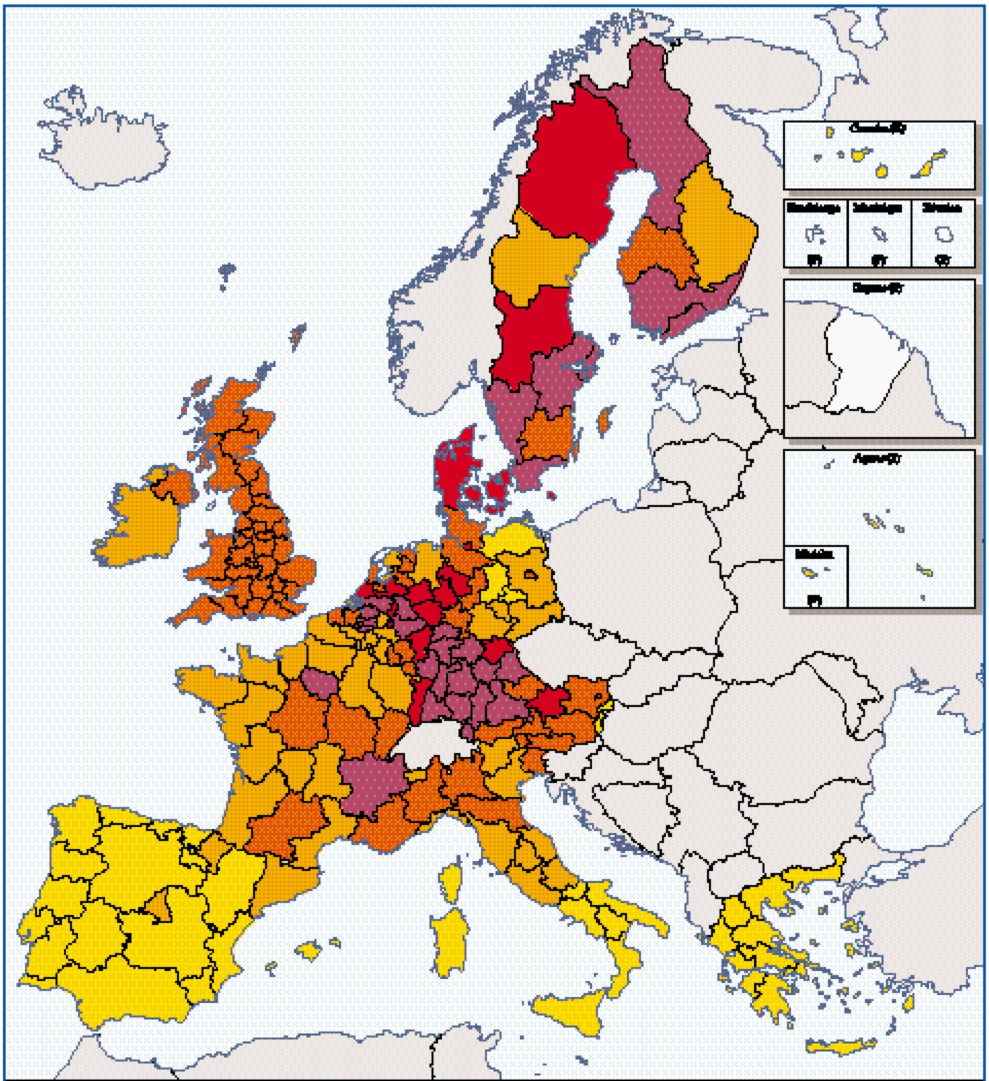
There is also evidence, however, of the key importance of less tangible factors which cannot easily be quantified, particularly the efficiency – or lack of it – of public administration, the extent and effectiveness of business support services, the availability of social facilities, the prevailing business culture and various other aspects of the institutional structure, which create a favourable environment for the necessary changes in the more tangible factors to occur. The success of Northern Italy, for example, or the lagging development of many parts of the South, cannot be explained simply in terms of the structure of economic activity, accessibility and education levels.

This, therefore, argues strongly for an integrated approach to regional development which explicitly acknowledges the complexity of the process and takes due account of the interaction between factors, intangible as well as tangible. The need, in sum, is for a long-term strategy which addresses simultaneously the many aspects of the problem of a lack of competitiveness and attempts to build up the social capital of a region – its business culture, administrative structure, institutional relationships and so on – in parallel with its physical infrastructure, the skills of its work force and its productive base.

Factors underlying competitiveness

Although there has been some narrowing in recent years, the **technology** gap (measured by such indicators as patent applications and spending on research) between the Cohesion countries and the other Member States far exceeds the gap in GDP per head (except for Ireland, which has more or less caught up in both respects). The disparities are most significant in terms of output indicators, ie in terms of the innovations which stem from research and development, underlining the need to improve the efficiency of the process by which research effort is translated into new products or more efficient ways of doing things in lagging regions. In this respect, it is important to bear in mind that companies can innovate and become more competitive through the transfer of technology, possibly by means of direct investment, without necessarily having to do their own RTD and applying for patents.

SMEs play a major role in employment creation and the development of lagging regions. The number of SMEs is highest in the Southern Member States, although this is partly due to their different pattern of sectoral specialisation. In addition, SMEs tend to be concentrated in more favoured regions of these countries, particularly capital cities, while in the poorest regions there are comparatively few. Tackling such imbalances must be part of an integrated approach to regional development which also takes account of the sectoral distribution of SMEs and the extent of their presence in the more dynamic sectors. Recent research



European patent applications, average 1994-95-96

number per million inhabitants

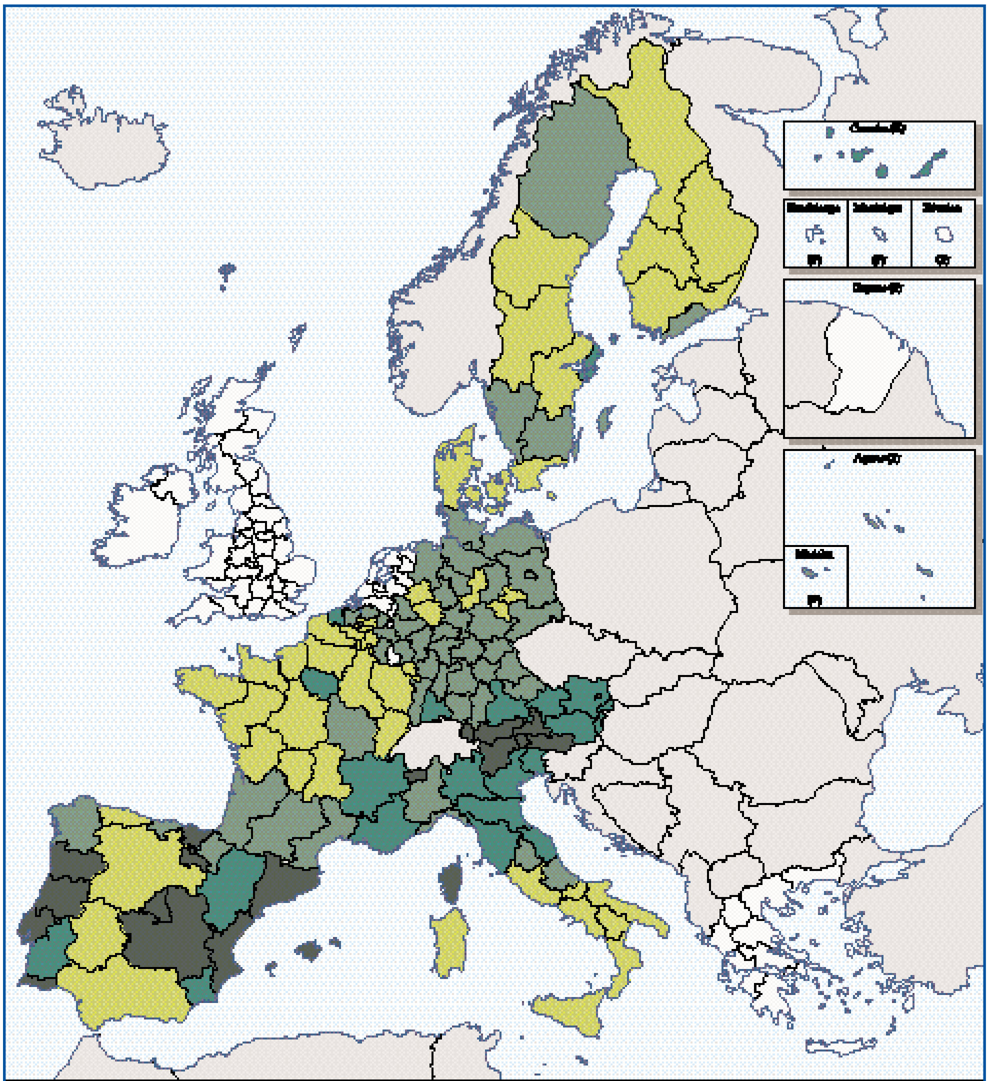
< 20

no data

suggests that the potential contribution of SMEs to development depends on other conditions, such as the availability of support services and on their links with large firms and/or the networks between them.

Foreign direct investment (FDI) contributes to regional development, not just by increasing the capital stock but also by introducing new products and techniques. In order for lagging regions to derive the full benefits of FDI, however, it is important that the firms making the investment become integrated into the local economy. Over the past 10 years, the EU has been the world's major investor abroad, but it has also received large inflows of FDI. In relation to GDP, Ireland especially but also Portugal and Spain have benefited from above average inflows of investment from countries outside the EU as well as from other Member States.

Despite progress in recent years, significant disparities in **transport infrastructure** remain between regions, and the four Cohesion countries still lag behind other parts of the Union, particularly in terms of the standard of



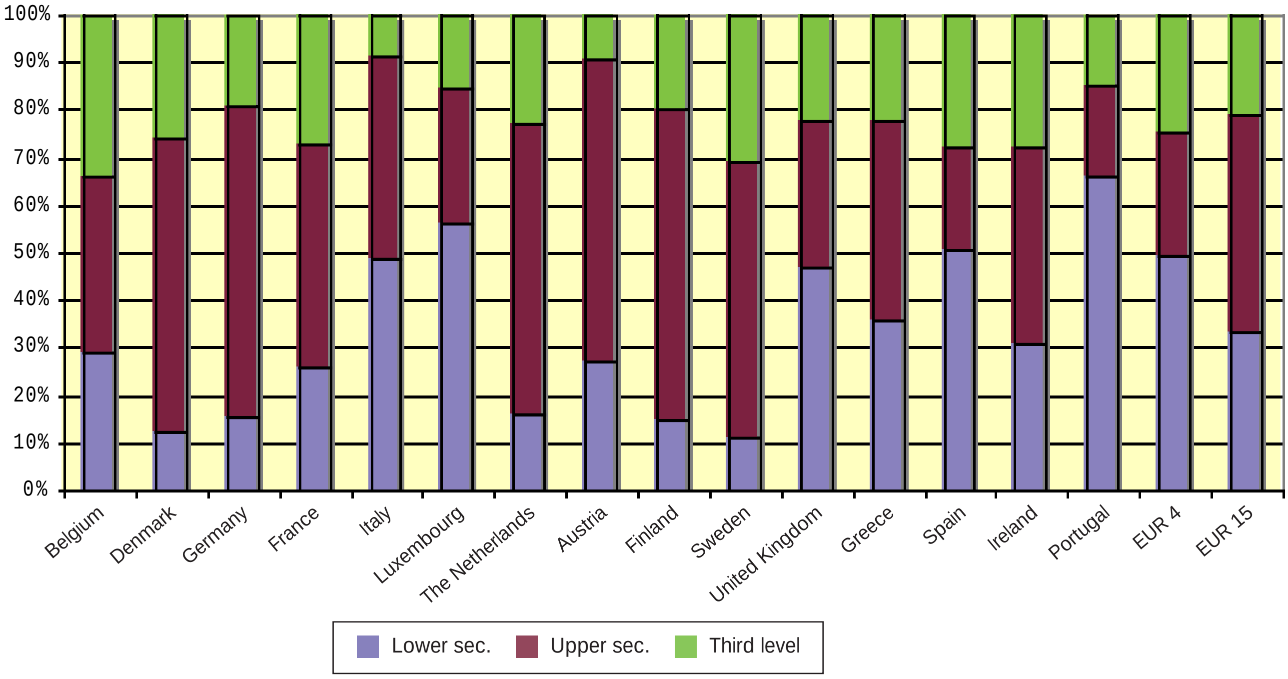
Density of small and medium-sized local units, 1994 provision. Even more progress has been made in reducing disparities in telecommunications infrastructure. The Cohesion countries still have somewhat less extensive networks, as measured by the number of telephone lines per 100 inhabitants. However, with the notable exception of Greece, the gap in the quality of networks, as measured by the extent of digitalisation, has largely been eliminated.

The availability of reliable sources of **energy** at reasonable cost is closely linked to economic growth and development. Investment in energy infrastructure is necessary to close the remaining disparities in provision between different regions. In particular, the market in natural gas is still very segmented, and certain regions continue to be at a disadvantage in terms both of market structure and of infrastructure.

Disparities in **human capital,** ie the education levels of the work force, are also tending to narrow, though significant differences remain in the relative number of young people remaining in education and initial vocational training beyond compulsory schooling. The weight of the past is reflected in the high proportion of people of working age with only a basic level of education. Three-quarters of those aged 25 to 59 in Portugal and two-thirds in Spain have no qualifications beyond basic schooling. These figures are substantially lower, however, for the 25 to 34 age group, reflecting the progress being made to raise levels.

Institutional factors are increasingly seen as key elements in competitiveness. Such factors include the endowment of social capital, in the form of the business culture and shared social norms of behaviour which facilitate cooperation and enterprise, which is of particular importance for regional development. Networks between firms are both a product of social capital and an element of it. These combine the economies of scale normally open only to large firms with the dynamism and flexibility of small units and, as such, are especially important for innovation.

Educational attainment level of persons aged 25 to 34 years, 1996



In fact, social capital (or the lack of it) is a key factor in a broad range of elements contributing to regional competitiveness and is cited as an important issue underlying aspects as diverse as innovation and inner city social problems. A relatively low level of social capital in many lagging regions in the Union is a major constraint on their competitiveness.

The efficiency of public administration is another institutional factor of importance. In recent years, there have been significant changes in the principles governing public sector management, a key feature being emphasis on performance evaluation, so that lessons from the past can be systematically fed into decision-making to improve policy in the future (to create a 'learning organisation'). Another feature is a shift towards decentralisation and partnership, enabling different levels of government as well as the private sector to participate in the policy process and to bring their different kinds of expertise and experience to bear.

According to studies, the delivery system for the Structural Funds makes two important contributions to the institutional endowment of lagging regions, through:

- programming and evaluation, which together have created a policy-making process with continuous improvement in the measures implemented (again the 'learning organisation') and which are often described as the main innovation to arise from the Funds. Such a process requires an accumulation of expertise within public authorities and, for most Member States, the impetus to acquire this came from the Structural Funds. In addition, the Commission is developing and diffusing best practice techniques for evaluation;

- mobilising private and public sector partners at the local level, which is not just a benefit in terms of increasing the effectiveness of the Funds, but is also starting to contribute to the accumulation of social capital and to the creation of networks in lagging regions. The Structural Funds provide the incentive and the opportunity for contact between many different actors from diverse areas of the local community who might not otherwise work together and can, therefore, help overcome obstacles to closer interaction. The contact so established can generate benefits across a wide range of economic activities in the region concerned.

3. The role of EU structural actions

Despite significant progress in recent years, the regional cohesion problem in the EU remains considerable. The 25% of the EU population living in Objective 1 regions have an average GDP per head little more than two thirds of the EU average. GDP per head in Objective 1 regions is, however, gradually converging to the level in the rest of the Union. Between 1989 and 1996, those regions with Objective 1 status throughout the period went from 63.5% of the EU average to 69%. Only 4 of these regions experienced a widening of the gap.

The gap is the result of both lower productivity and lower employment rates than in other parts of the Union. The closing of the gap that has occurred since 1989 is predominantly due to a higher growth of productivity in Objective 1 regions than elsewhere rather than higher employment. Objective 1 regions are, therefore, becoming more competitive, but, except in a few cases, this has not yet been translated into job creation. Indeed, unemployment is a major problem in many such regions, as well as in Objective 6 areas. Just over one in 6 of the labour force in Objective 1 regions are unemployed, compared with one in 10 in the EU as whole.

For Objective 2 areas, the gap in unemployment with the rest of the EU, which is the main focus of policy, has closed on average since 1989. Experience, however, varies between Member States. In Objective 2 areas in Germany, France and Italy, unemployment was higher in 1997 than in 1989, while in Denmark, the Netherlands and the UK, it was markedly lower. Objective 2 areas have a high dependence on a very limited number of manufacturing sectors which have accounted for the major part of job losses. Nevertheless, there is evidence of small enterprises growing in importance and increasing the number of people they employ, offsetting to some degree the jobs lost in large firms.

In Objective 5b areas, except for those in the Netherlands and the UK, unemployment has risen steadily since 1989, including during the present economic recovery, which suggests that the structural element may be becoming more important. On the other

Economic indicators in assisted regions, 1988 - 1997

Regional Group	Employment change (% pa)		Unemployment rate (%) (1)			GDP per head (PPS), EUR15=100					
	88-93	93-97	1988 (2)	1993	1997	1988	1993	1994	1995	1996	Average 1994-96
Objective 1 (89-99)	0.1	0.4	15.6	16.3	17.2	63	68	69	69	69	69
Objective 1 (94-99)		0.3		14.9	16.2		66	68	68	68	68
Objective 2 (94-99)	0.1	0.4	12.5	12.4	11.9	94	96	96	97	96	97
Objective 5b (94-99)	0.5	-0.2	7.3	7	7.8	82	85	86	86	85	85
Objective 6 (95-99)	–	0.7	–	19.9	18.4	87	77	77	81	77	78
Others (94-99)	0.1	0.1	8.5	8.2	8.1	114	116	116	116	116	116
EUR 15 excl. new Länder	0.1	0.2	9			100					
EUR 15	–	0.2	–	10.7	10.7	–	100	100	100	100	100

(1) EUR 15 : Eurostat harmonised unemployment figures
(2) Figures by Objective are for EUR 12
Source : Eurostat - estimates by DGXVI

The Effect of the Structural Funds on Cohesion

There are two ways of measuring the contribution of the Structural Funds to improving cohesion in the EU. Firstly, by analysing socio-economic indicators in the regions assisted. These regions have experienced an unusually rapid pace of convergence, both from an historical and international perspective: in the period since 1989, average GDP per head in regions with Objective 1 status throughout the period has increased from 63.5% to 69% of the EU average, while trends for the four Cohesion countries are even more encouraging; the report illustrates that they have, in general, gone up from 65% of the EU average to cross the 75% threshold for GDP per head, with projections for 1999 placing them as high as 77% of the EU average. Similarly, the Structural Funds have made an undeniable contribution to reducing the unemployment gap between Objective 2 areas and the rest of the EU, particularly in Denmark, the Netherlands and the UK.

A second method of measuring the contribution of the Structural Funds is by using macro-economic models. These suggest that, over the period 1989-99, the Funds added around 0.5% point a year to growth in Objective 1 regions; the cumulative effect of the Funds has been to increase the GDP of Greece, Ireland and Portugal by nearly 10% in each case and that of Spain (much of which is not covered by Objective 1) by over 4%.

hand, employment has risen by more than in other parts of the Union, which suggests a larger increase in the labour force than elsewhere. It also suggests significant diversification of economic activity away from agriculture, which is the main aim of policy, and there is evidence of net job creation in manufacturing industries where SMEs predominate, especially those connected to the rural economy, though also in other areas.

Various studies undertaken to assess the impact of the Structural Funds on assisted regions indicate that they have made a significant contribution to the reduction in regional disparities across the Union. In particular, a central estimate from the four main macroeconomic models used to estimate the effect of the Funds, suggests that they have added around 0.5 percentage point or more to the growth of Objective 1 regions. By 1999 the cumulative effect of the Funds is estimated to have increased the GDP of Greece, Ireland and Portugal by nearly 10% in each case and that of Spain (much of which is not covered by Objective 1) by over 4%. These figures suggest that a significant proportion of the catching up that these countries have experienced over the period 1989-99 would not have happened in the absence of the Funds.

However, the models also highlight the extent to which the effectiveness of the Structural Funds depends on other factors, such as sound macroeconomic and other policies at the national level and the structure of economic activity in the region concerned.

Impact of the Structural Funds

Comparison of simulation results obtained from macroeconomic models (growth effects in % differential from baseline)

COUNTRY	PEREIRA	BEUTEL		HERMIN4			QUEST II	
	1994-99 yearly average (%)	1989-93 yearly average (%)	1994-99 yearly average (%)	1994 Total effects (of which demand effects)	1999 Total effects (of which demand effects)	2020 Total effects (of which demand effects)	1989-93 yearly average (%)	1994-99 yearly average (%)
GREECE	0.4 to 0.6	0.8	1.0	1.2 (1.1)	9.4 (4.8)	9.5* (1.5)	0.3	0.1
IRELAND	0.4 to 0.6	0.9	0.6	6.2 (6.2)	9.3 (5.9)	12.4 (4.0)	0.3	0.3
PORTUGAL	0.6 to 0.9	0.9	1.1	7.0 (7.0)	9.2 (8.1)	8.9 (7.6)	0.3	0.2
SPAIN	–	0.3	0.5	1.9 (1.9)	4.3 (2.9)	8.7 (1.9)	0.1	0.1
AVERAGE EUR 4		0.5	0.7					

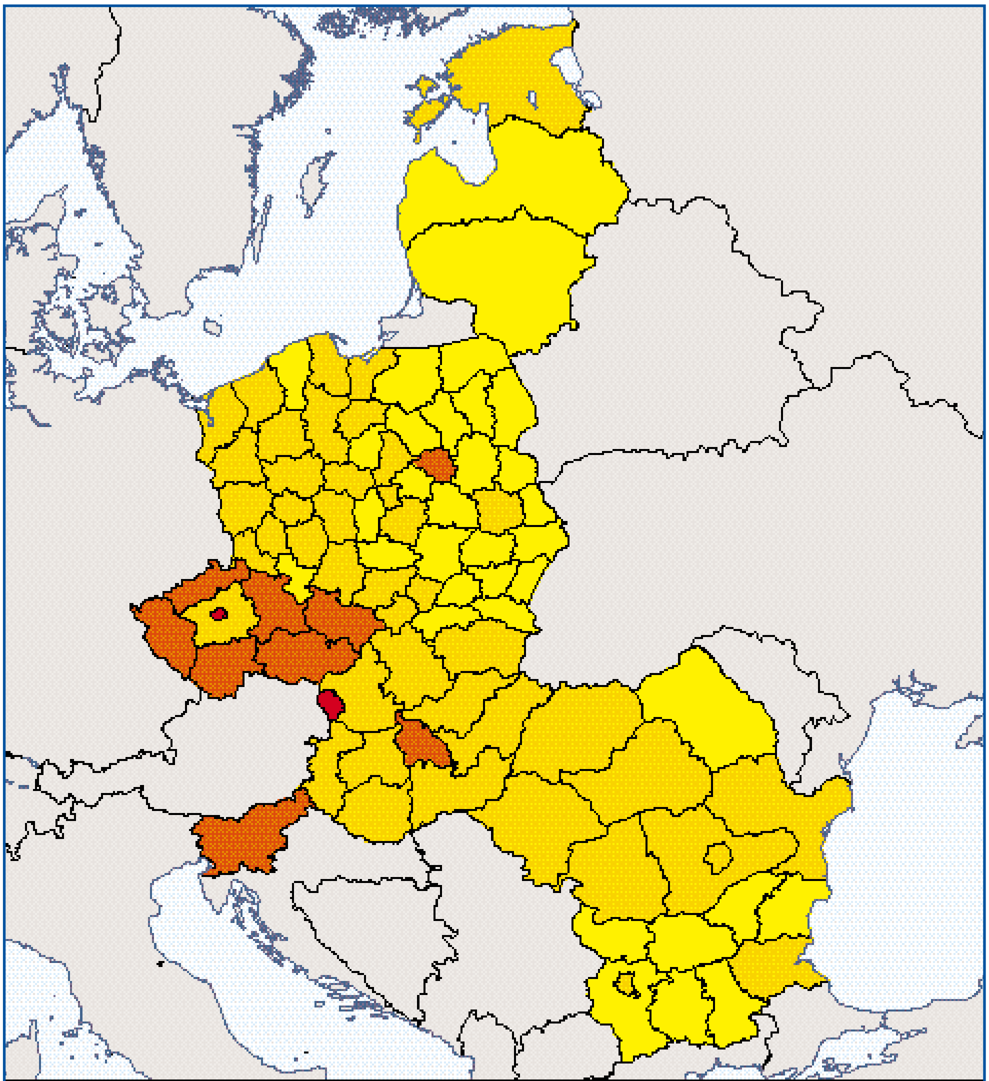
Source: Pereira (1994), Beutel (1996), Bradley et al. (1995), Christodoulakis and Kalvitys (1995), Cordero (1996), Roeger (1996)

* 2010

4. Enlargement

The situation in the Central and Eastern European (CEE) countries has evolved rapidly since the collapse of the previous regime around the turn of the decade. After initial sharp falls in income and output, most of the CEE countries have experienced growth since 1993 or 1994. The recovery has, in general, been most marked in the countries which have made the most progress in moving towards a market economy, underlining the gains to be achieved from reform. On the basis of the recovery and closer economic integration with the EU, many CEE countries have made large strides towards preparing for EU membership.

However, much work needs to be done in terms of boosting output, reducing unemployment and regional disparities and improving the quality of infrastructure, and the Structural Funds will have a significant role to play in this. In addition, before the CEE countries are ready to participate in EU structural



GDP per head by region (PPS) in Central and Eastern Europe, 1996

Enlargement

Many CEE countries have made significant strides towards preparing for EU membership. Since 1993, rapid growth in several countries has brought the combined GDP per head in the CEECs to around 40% of the EU average, although wide variations still exist: while Latvia has a GDP per head of 25% of the EU average, this figure is around 67% in Slovenia and 62% in the Czech Republic. However, much work needs to be done in terms of boosting output, reducing unemployment, dispelling regional disparities and improving the quality of infrastructure. In this context, the pre-adhesion structural instrument and the EU Structural and Cohesion Funds will have an essential role to play.

Regional Imbalances in the CEE Countries

There is a clear pattern to the regional imbalances characterising the CEE countries. Capital cities, large urban centres and many of the regions bordering on the West are generally better off, and have been more successful in attracting Foreign Direct Investment (FDI), reducing unemployment and boosting economic activity than the more easterly regions and those in countries which have been slower to implement reform programmes.

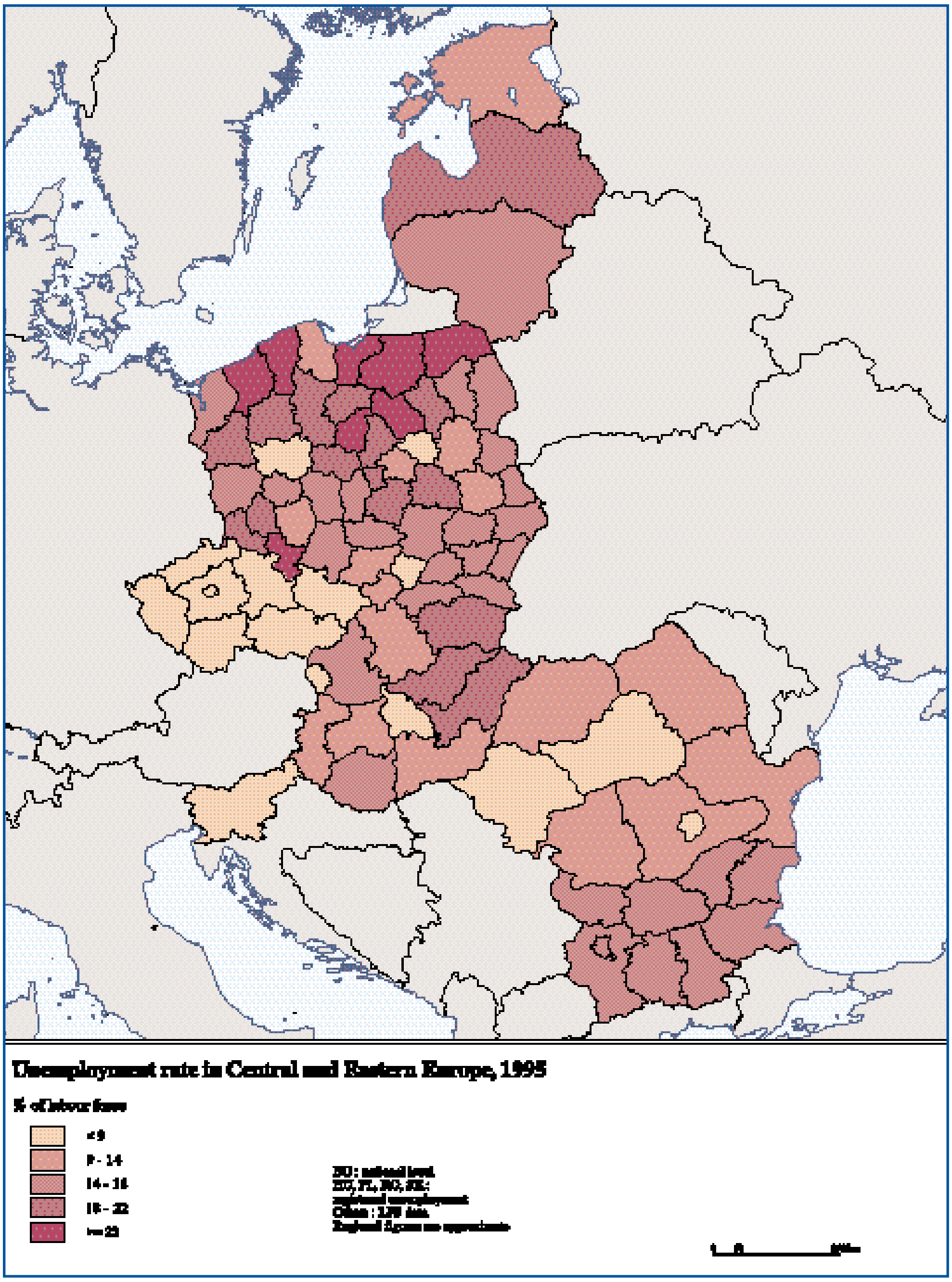
In Hungary, for example, a large share of economic activity is concentrated in western regions and Budapest, while the eastern areas have been particularly affected by declining industrial and agricultural production. This is accentuated by the fact that FDI in Budapest and western counties is estimated to account for 80 to 90% of total FDI. The relative strength of regional economies is reflected in the fact that unemployment ranges from 7% in Budapest and central Hungary to around 19% in northern Hungary.

Similarly, in Poland, while regional imbalances are somewhat more limited, they can be significant between neighbouring regions. Warsaw, big urban centres and certain central and western areas tend to benefit from a rapidly expanding tertiary sector, higher levels of FDI and more foreign trade. Conversely, certain regions, particularly but not exclusively in the North, have been affected by the decline of agricultural production and the collapse of industrial output. This accounts for regional variations in Poland's unemployment rates. In general, large urban centres such as Warsaw present the lowest unemployment figures (5%).

policy, major effort will be necessary to put in place structures for the administration of the Funds.

Although output contracted significantly in the early years of transition, economic recovery from 1993 onwards has allowed certain CEE countries to narrow the gap in output per head with the Union. In 1997, GDP per head in the countries, taken together, was around 40% of the EU average. In addition, this masks significant imbalances, such as Latvia, whose GDP per head is only 25% of the EU average, and Slovenia, for which this figure is closer to 67%. Only two regions, Prague and Bratislava, have a GDP per head above 75% of the EU average.

Regional imbalances within CEE countries are characterised by the relative prosperity of urban centres and certain Western regions bordering the EU, which have benefited from the expansion of the service sector. Conversely, employment has plummeted in other regions as a result of large-scale job losses in traditional



Unemployment rate in Central and Eastern Europe, 1995 industries and reductions in agriculture. Nevertheless, employment in agriculture and industry remains high in some regions, reflecting delayed restructuring.

Unemployment has risen significantly in most countries, but with considerable variation in rates, ranging from 5% in the Czech Republic to 14% in Bulgaria, Latvia and Lithuania. There are also significant regional disparities with, again, large urban centres and most Western regions having lower unemployment. The labour force has declined as the availability of jobs has diminished and people have withdrawn from the work force and, in many CEE countries, participation rates are now close to the EU average. Participation is regionally differentiated, often with high rates in areas where restructuring is still incomplete.

European-wide economic integration is reflected in growing trade flows. By 1995, the EU was the main trade partner of all CEE countries, and the share of the latter in total EU trade is now superior to that of Japan. This has given rise to a significant EU trade surplus with the countries and EU-CEE exchanges are increasingly dominated by intra-industry trade. The CEE countries as a group are also experiencing a significant inflow of foreign direct investment, though flows are concentrated in a few countries with well-advanced reform programmes. EU Member States are by far the main source of investment, further confirming the increasing degree of economic integration.

In addition to the economic challenges outlined above, the CEE countries still need a lot of investment in transport infrastructure and environmental protection. While the level of infrastructure in many areas is similar to that in the EU, the quality is, in general, significantly lower.

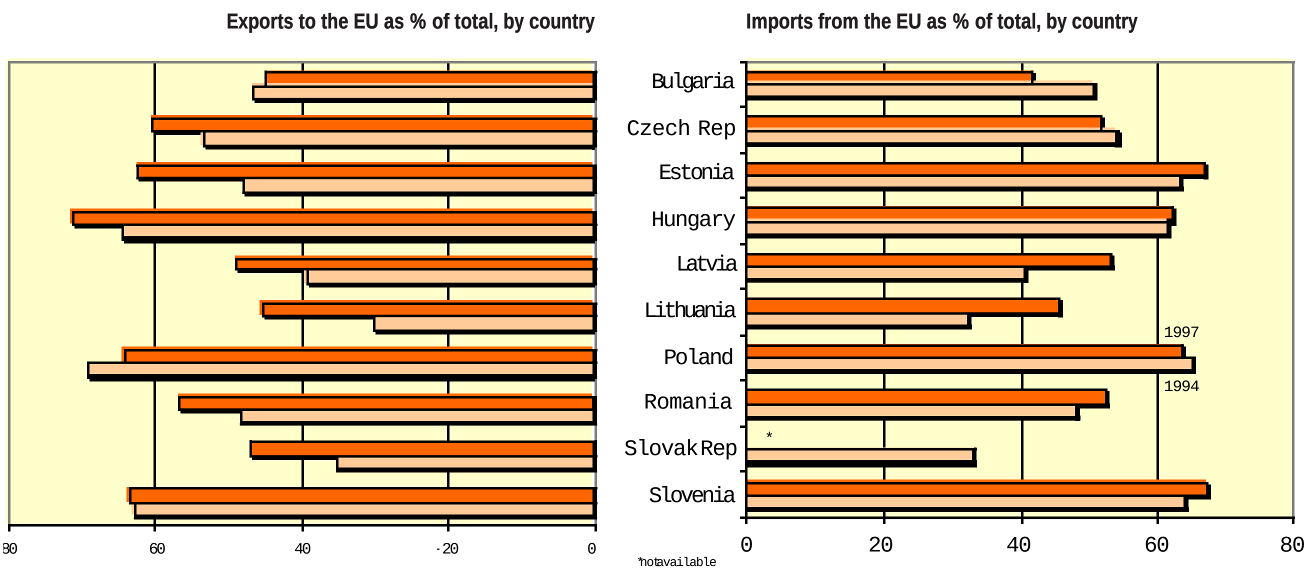
Despite major structural problems, most CEE countries have yet to develop regional policies. With transition, CEE governments, at differing speeds, dismantled the machinery of state intervention in the economy and accorded priority to macroeconomic stabilisation. However, as economies stabilised, most governments began to introduce development policies in recognition of the need to address regional disparities. This has been

Regional Policy Institutions in the CEE countries

In most CEE countries, ministries responsible for regional development play primarily a policy development role and, in some cases, a co-ordinating, rather than an operational role. They prepare draft legal acts and regional policy reform and in some cases, they design regional development initiatives. However, the implementation of these initiatives generally falls to sectoral ministries or regional level administrations.

In order to co-ordinate these sectoral actions, most CEE countries have established inter-ministerial councils, usually of representatives from the sectoral ministries. In some CEE countries, they also enjoy a policy role, putting forward proposals for regional support schemes. However, sectoral policies are only loosely co-ordinated and regional development measures in general lack common regional development objectives.

CEEC trade with the EU, 1994 and 1997



facilitated by decentralisation of government and encouraged by the prospect of EU membership.

Accordingly, in most countries, the legal, institutional and budgetary structure for regional policy which will be necessary to participate in EU structural policy has begun to be established. In some CEE countries (Hungary, Latvia and Romania), a specific legal basis for regional policy now exists. At the national level, the ministerial structure responsible for regional policy has been improved and administrative procedures are being put in place. At the regional level, administration has been strengthened by decentralisation.

However, fully establishing these structures and procedures is likely to be a long process. CEE regional policies are still weak, lacking a comprehensive strategy and a programming approach. Measures tend to take the form of limited projects, implemented through sectoral policies which are only loosely coordinated. There remains a need to strengthen the Ministries responsible for regional policy and to develop their operational capacity, as well as to formulate national strategies for regional policy on the basis of which sectoral policies can be coordinated. Financial procedures also need to be improved so as to channel the support from the EU Structural Funds efficiently. Much still needs to be done, therefore, before the CEE countries will be ready to participate in EU structural policy.

The economy of Cyprus is in many ways well prepared for accession. GDP per head is around 75% of the EU average and the island may not even qualify for Objective 1 status by the time of accession. Unemployment is low and employment high, although correspondingly productivity is also low.

The report

The full text of the 6th periodic report is available on the Inforegio site <http://inforegio.cec.eu.int/6rp>.

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