EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

RESEARCH AND DOCUMENTATION PAPERS

THE IMPACT OF 1992 AND ASSOCIATED LEGISLATION ON THE LESS FAVOURED REGIONS OF THE EUROPEAN COMMUNITY

Regional policy and transport
Series

18

EN-9-91

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

RESEARCH AND DOCUMENTATION PAPERS

THE IMPACT OF 1992 AND ASSOCIATED LEGISLATION ON THE LESS FAVOURED REGIONS OF THE EUROPEAN COMMUNITY

C. W. Nam and J. Reuter
with the assistance of A. Gälli

Regional policy and transport
Series

18

EN-9-91

This study was carried out by an independent institute. It was commissioned by the Directorate-General for Research in the European Parliament's secretariat, but the opinions expressed are in no way binding on their authors and do not constitute the European Parliament's position. For technical reasons, certain tables have been only partially translated.

Cataloguing data can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 1991

ISBN 92-823-0320-9

Catalogue number: AX-71-91-437-EN-C

Printed in Germany

Foreword

On the occasion of the Second Conference of the European Parliament on 'Regions of the Community', to be held in Strasbourg in November 1991, the European Parliament's Directorate-General for Research has commissioned three studies on the role of the regions in an increasingly integrated Europe.

The studies are:

The regional impact of Community policies;
The impact of 1992 and associated legislation on the less favoured regions of the European Community;
A new strategy for social and economic cohesion after 1992.

The research institutes which prepared the studies were chosen following a call for tenders.

This study 'The impact of 1992 and associated legislation on the less favoured regions of the European Community', was carried out by the IFO Institute of Munich (Institut für Wirtschaftsforschung) on behalf of the European Parliament's Directorate-General for Research.

It aims to provide answers to the question which concerns these regions: What are the consequences of the completion of the internal market?

Will the economic and social cohesion of the European Community be jeopardized by the completion of the internal market? Which regions stand to gain from it, and which to lose? What political conclusions should the European Community, the Member States and the regions draw from this?

The project was supervised and coordinated by Frank Wiehler and Anthony Comfort.

Directorate-General for Research

Preface

This study was prepared under the direction of Dr G. Nerb in the Department for Economic Surveys, Investment Analysis and Business Behaviour Research of the IFO Institute for Economic Research in Munich.

The study is based to a large extent on interviews with representatives of economic policy institutions, regional organizations, trade associations and a series of experts in the fields of science and research. A total of more than 100 interviews were carried out, mainly in the six regions being studied, as well as a series of working discussions with the EC Commission in Brussels. Mr Russ, as well as the authors, was responsible for conducting these. We should like to express our gratitude here for all the information and ideas passed on to us, as well as for the documentary material put at our disposal. The work was made easier by the support of the Directorate-General for Research of the European Parliament.

We hope that this study will help to strengthen the position of regional policy in the European Community.

Contents

List of figures

Summary and economic policy recommendations

The IFO Institute for Economic Research was commissioned by the European Parliament to investigate the effects which Europe '92 and the legal provisions relating to it would have on the Community's problem regions (Objective 1, 2 and 5b regions).

The overriding question was whether the 'social cohesion' of the units which go to make up the Community would tend to be furthered or to be made more difficult.

The aim of the study was to offer a comprehensive analysis of the situation and outlook of as wide a range of regions as possible for each regional group.

The main conclusions of the study are presented first. There follows a detailed account of the reasons for reaching these conclusions and finally, in the last section, a number of economic policy recommendations which seem to us to be of importance are developed.

Main conclusions of the study

On the basis of the empirical analyses and case studies used in the investigation of the endogenous and exogenous factors of regional economic growth (economic structure, productivity, external links, the labour market, traditional infrastructure such as transport, communications, energy and available area, human capital infrastructure, quality of life and capacity of the problem areas to attract foreign investors), it became clear that the conditions in most of the problem regions for realizing the growth and employment potential which will be made available by the measures to deregulate the Community are unfavourable.

It emerged in the case of all three groups of problem regions that the possibility of exploiting the impulses triggered off by the deregulation measures is conditioned in the first instance by the region's competitiveness (situation, quality of the region, economic structure). The role of specific measures, such as the liberalization of movement of capital, does, of course, differ from region to region — it is greater, for example, where this area is not yet very competition-intensive (Italy) or where intranational differences (cost of borrowing) are greater (northern/southern Italy).

However, the resulting impulses seem on the whole to be only of marginal importance and cause no significant reduction in the disparities between regions even where the positive effects in the problem regions are greater.

The Europe '92 project is not, and never has been, motivated primarily by regional policy objectives, but by the wish to enhance the competitiveness of the Community of Twelve in the global context. It is not therefore surprising if some economic regions are unable or only partly able to make use of the opportunities being offered. The regions which have shown an increasing shortfall in development in the 1990s are the very ones to which Europe '92 in all its facets is hardly applicable.

It follows from this that the problem of the disparities between regions will worsen as a result of the relative deterioration of the situation in many structurally weak rural or old industrial areas. The resulting, relatively low, effect on growth of Europe '92 will have a less marked effect on employment and do little to relieve the labour market in the regions in question. This means that the primary income situation (i.e. without transfer payments) will worsen in these regions in comparison with the economic centres. The question of the political instruments to bring about social cohesion in the Community will become a more urgent one in the future.

However, the generally improved growth rates mean that there are more possibilities of actively influencing regional distribution and development, with the help of which the situation of the problem regions can be lastingly improved.

There are great differences between the future development prospects of the various problem regions. Table 1 shows that the Objective 1 regions of Valencia, Murcia, Molise and the Abruzzi can expect better prospects.

Table 1 — **Development prospects[1] of the Objective 1 regions[2]**

Regions with potentially good development prospects	Regions with specific problem situations and open development prospects	Regions with development problems which are tending to worsen
Valencia	National centres in Portugal and Greece	Calabria
Murcia	Apulia	Sicily
Abruzzi	Andalusia	Sardinia
Molise	Canary Islands	Basilicata
	Northern Ireland	Campania
	Ireland	Corsica
		Extremadura
		Galicia
		Castile-Leon
		Castile-La Mancha
		Asturias
		Portugal (except Lisbon)
		Greece (except Athens and Saloniki)

1 Account was taken in categorizing of economic structure (employment market, growth, industrial structure and rate of development), infrastructure (transport links, schools, universities, areas and sites, etc. — see Chapter 2.2.3) and location.
2 Ceuta and Melilla and the French overseas territories were not studied.

It is much more difficult to make distinctions of this kind for the Objective 5b and 2 areas, not least because of the very heterogeneous composition of the groups, which would require detailed studies of the individual areas. The attempts at categorization in Tables 2 and 3 must therefore be seen as approximations.

It can be taken as a general principle that the areas which are less peripheral and/or are located near core regions have better development prospects (see Nam/Reuter/Russ, 1990).

The opening of the borders with Eastern Europe means that some of the German and Italian Objective 5b regions will now be able to function as bridgeheads with Eastern Europe and will thus move from being in a geographically peripheral position to being in the centre of events. The situation of those Objective 5b regions which are situated in the catchment area of an agglomeration or within a larger area which has enjoyed a high rate of growth in recent years is likewise relatively favourable (Table 2).

It is almost impossible to generalize about the situation of the Objective 2 regions. The problems and prospects vary considerably from case to case. The situation of the Spanish Objective 2 regions seems, for example, to be relatively worse, although structural adjustments here were made somewhat later than in other regions. Other Objective 2 regions, such as the Belgian province of Limburg, the Ruhr and Greater Manchester, have performed better.

Overall it is true to say that the vast majority of the old industrial areas are located at the centre of Europe's trade and production nexus, so that the problem of a peripheral location plays a lesser role or does not exist, in contrast with the other problem regions. Only the Spanish and some of the British Objective 2 regions have location problems of this kind. The Objective 2 regions with potentially good development prospects are generally characterized by the fact that the larger area of which they are part can offer alternative employment in 'modern industry' (after structural adjustments have been carried out) or the services sector (particulary in the case of the political and administrative centres). The transport infrastructure is good, apart from the general problems of congestion and overcrowding present in highly industrialized areas, and R&D activities are excellent (Table 3).

Table 2 — **Development prospects of the Objective 5b[1] regions — selection**

Regions with potentially good development prospects	Regions with specific problem situations and open development prospects	Regions with development problems which are tending to worsen
Objective 5b regions in the following areas:	Objective 5b regions in the following areas:	Objective 5b regions in the following areas
Rome, Tuscany, Rhône-Alpes, Provence-Alpes-Côte d'Azur, Piedmont, Bolzano, Trento, Veneto, Aquitaine, Burgundy, Lorraine, Bavaria, Hesse, the Balearics, Madrid	Luxembourg, the Marches, Languedoc-Roussillon, Midi-Pyrénées, Brittany, Saarland, Lower Saxony, Lower Normandy	Highlands and Islands, rural Wales

[1] For categorization criteria see Table 1.
As emphasized in the main report, the areas within the NUTS II regions mentioned in the table which also have Objective 5b characteristics are of variable significance for the area as a whole (in the proportion of economic activity and employment they represent). However, comparable empirical data are available only for the NUTS II regions. The above assessments of development prospects therefore apply to the region in question as a whole. This procedure, made unavoidable by the empirical data available, is given a certain plausibility by the fact that the situation of the problem regions in particular is conditioned to a great extent by their immediate economic surroundings, which hence also influence their development prospects.

Table 3 — **Development prospects of the Objective 2 regions[1]**

Regions with potentially good development prospects	Regions with specific problem situations and open development prospects	Regions with development problems which are tending to worsen
Objective 2 regions in the following areas:	Objective 2 regions in the following areas:	Objective 2 regions in the following areas:
Berlin, the Ruhr, Limburg (B), Greater Manchester, Piedmont, Liguria, Tuscany, Veneto, Lombardy, Latium, Nord-Pas-de-Calais, Rhône-Alpes, Provence-Alpes-Côte d'Azur, Overijssel, Groningen/Drenthe, Limburg (NL), Catalonia, Madrid	Saarland, Bremen, Umbria, the Marches, Emden, Salzgitter/Peine, Rhineland-Palatinate	The Basque country, Cantabria, Lorraine, north-east Wales

[1] For categorization criteria see Table 1.
As emphasized in the main report, the areas within the NUTS II regions mentioned in the table which also have Objective 5b characteristics are of variable significance for the area as a whole (in the proportion of economic activity and employment they represent). However, comparable empirical data are available only for the NUTS II regions. The above assessments of development prospects therefore apply to the region in question as a whole. This procedure, made unavoidable by the empirical data available, is given a certain plausibility by the fact that the situation of the problem regions in particular is conditioned to a great extent by their immediate economic surroundings, which hence also influence their development prospects.

Findings in detail

The peripheral location of the less favoured regions such as Ireland, Greater Manchester, the Highlands and Cantabria has always been a major problem, for these regions suffer from disadvantages caused by higher transport costs and longer delivery time of manufacturing inputs. An effort to overcome such problems like the construction of the Channel Tunnel in the UK does not contribute to the development of those peripheral regions to a great extent as long as necessary infrastructure connecting the Channel and the regions is not provided, as is the case for Greater Manchester and the Highlands.

In comparison with those in favoured regions in the EC, a larger number of manufacturing companies are organized on a small scale in the problem regions, especially in Objective 1 and 5b regions. In general it is expected that the SMEs will suffer after 1992, particularly in those markets which will attract foreign competitors. Apart from the generally acknowledged disadvantages they have (such as limited horizons of their technology and markets), they are relatively ill prepared for the anticipated competition and threats faced in the future. Nevertheless, specialization on the regional market will protect them in many cases from external competitors.

According to the study by Nam/Nerb/Russ (1990), the link between innovation and employment creation is significantly closer in SMEs than in big enterprises. Thus, policy measures to improve the innovative performance of SMEs in the problem regions, which also have a higher rate of unemployment, are of special importance because they help not only to improve the competitiveness of those companies but also to stimulate growth of employment in those regions. However, it must be taken into consideration that in many problem regions, particularly Objective 1 and 5b regions, the preconditions for the development of high-tech structures on a large scale are worse (e.g. lack of R&D infrastructure, weaker innovation activities of existing companies, etc.).

Those in favour of complete deregulation argue that the removal of trade and market-entry barriers enhances competition and, consequently, increases the variety and quality of transport services while reducing costs (see, for example, liberalization in air transport in Ireland). However, the past experience of deregulation in Greater Manchester and in the Highlands and Islands shows that these measures are not always successful. For example, the bus or ferry deregulation led to an increase of fares in this region and made local transport policy more difficult.

The liberalization of public sector procurement is seen by many local authorities as not always favourable to enhance the growth of local economy. Especially in the investigated less favoured EC regions with high unemployment it would prevent the policy intervention aimed to create new jobs and to sustain the long-term regional employment level. This suggests that (at least at the initial stage) there are, to a certain extent, conflicts in the policy decision, to which measure a higher priority should be given: the anticipated effects of savings in public expenditure caused by the liberalization of public purchasing or regional employment policy.

Although it is hardly expected that the local authority contracts will immediately be won by suppliers from other countries or regions, the opening-up of public procurement can have negative effects on the economy of less favoured regions. In the case of the construction sector, for example, the exploitation of opportunities in other EC countries will continue to be limited after 1992 due to differences in language and in construction systems. Yet, large and internationally organized companies will overcome these difficulties relatively easily, but these firms are unfortunately rarely located in the less developed regions.

The infrastructure endowment in most of the lagging and rural regions and in a few Objective 2 regions shows numerous deficiencies in comparison with that in the prosperous regions. A large number of these regions suffer from insufficient transport networks, telecommunications and energy supply. Particularly in some peripheral regions the improvement of telecommunications is seen as a means to reduce the geographical disadvantages. The deregulation and privatization in the field of telecommunications will contribute to its endowment in peripheral and rural areas of the EC by reducing tariffs as well as by increasing service accessibility.

In addition, the less developed regions are relatively poorly equipped with human capital and soft infrastructure (leisure-time facilities, quality and availability of cultural facilities).

Insufficient infrastructure and less competitive economic, especially industrial, structures (see below) are the main reasons why the inflow of foreign capital into these regions has taken place on a smaller scale although labour costs in most of these regions are relatively low. With some exceptions (e.g. Ireland) the contribution of foreign investment to the modernization of industries and services in most of the lagging and rural regions seems to be relatively small.

The implementation of the single market is likely to lead the less developed regions, especially the Objective 1 and 5b regions, to specialization in indigenous industries such as clothing and food industries, realizing existing comparative advantages. However, such industries are threatened by pressure to restructure and modernize (partly by technical change). These sectors are generally characterized as sectors with weak performance (see Commission of the European Communities, 1990a). According to an empirical study carried out by Booz, Allan and Hamilton (1989), the implementation of the 1992 programme will stimulate modernization in many such industries in less developed countries in the Community like Greece, Ireland, Portugal and Spain and their regions and, consequently, increase productivity and output. Yet, one should bear in mind not only the serious replacement of labour forces caused by the rationalization process but also the fact that at present there is little empirical evidence of strong modernization efforts, particularly in many of the Objective 1 regions.

The major heavy industries in the Objective 2 regions, such as mechanical engineering and automobile manufacturing, etc. have generally been exposed to competitive pressure and have already gone through a restructuring process, while some industries like iron and steel, coal-mining and shipbuilding have been continuously subsidized since long ago (see Nam, 1991a). However, in some regions like Greater Manchester, reduction in costs from the harmonized European market is likely to be small in such industries.

Generally speaking, sectors such as high technology, electronic goods and chemicals (except basic chemical products) seem to be the ones with the greatest potential to realize unexploited economies of scale. Firms in these sectors can expect to experience some further restructuring after the implementation of the internal market, possibly involving take-overs and mergers.

Mergers are significantly increasing on a European scale. Apart from the mergers which commonly lead to rationalization and to a reduction of the number of production units, agreements, cartels and other arrangements among large and successful companies, aimed at maintaining and expanding their market position, mean an immediate danger and loss of competitive position for peripheral regions as well as declining industrial regions, because these regions bear the brunt of rationalization pressure and suffer from weak performance of their industries. In this sense, one can argue that, to a certain extent, the less favoured regions could benefit from the prohibition of such kinds of cooperation between firms, although this measure lets these regions keep the existing old industry structure for a while.

In spite of the existing wide regional disparities, expecially in unemployment and income, the general development of migratory flows of labour from the less developed to the prosperous EC regions has been moderate in recent years. In addition, a larger-scale intra-EC migration is not expected in the future either. By contrast, a significant net migration is still taking place in Ireland, especially to the UK. The implementation of the single market is likely to increase Irish emigration, especially of professionals, to the other EC countries.

The State subsidies and aid packages, in the form of capital grants, loan subsidies, tax incentives, etc., the size of which differ from one country to another, are generally reckoned to distort competition. In recent years it has been argued, partly also in the context of the EC single market, that these subsidies should be controlled and eventually eliminated in order to guarantee competition in the EC.

In general, the types of subsidies can be differentiated into three categories:

(i) Apart from the so-called 'sunrise' industries which are found in the favoured regions, the declining industries such as iron and steel, shipbuilding, etc., mainly located in declining regions, have been supported by sectoral subsidies. In addition, a large amount of subsidies has been applied to the rural areas.

(ii) Grant systems and tax incentives have been provided in order to attract foreign investment as is the case in the UK regions and Ireland.

(iii) Regional promotion schemes have been developed in order to rectify the existing imbalances among the regions which have particularly supported industries in the problem regions (see Nam, 1991a).

The aids given to the sunrise industries sited in the central regions of the EC have led to widening regional economic disparities.

However, one can hardly deny that other types of subsidies shown above have contributed to the economic growth of problem regions, improved their competitiveness and saved their employment level from more replacement. The primary task to be undertaken for the efficient control of subsidies could be making them more transparent by reducing their existing complexity caused by the various types, differences in granting competence between national and regional authorities, etc., and creating a more harmonized system. However, the complete elimination of subsidies does not seem to be appropriate for the future EC regional policy for improving the social cohesion since the less favoured regions have been major beneficiaries.

The immediate effects of the harmonization of indirect taxes have to be seen in a national context. Nevertheless, its indirect effects on the regional level could be expected because reduction of VAT and excise tax rates could worsen the existing budgetary problems in some areas (Ireland). In this context, a positive discrimination appears to be desirable in future EC policy-making, which provides individual member countries in the case of apparent conflict with other EC policy aims with a certain amount of scope in a policy harmonization or coordination process, which would enable them to take somewhat different policy decisions in accordance with their own interests.

Economic policy recommendations

One certain effect of the Europe '92 project will be to bring the existing structural deficits in the problem areas to light earlier, both in the specific regional context and at the level of national economic policies, political and administrative structures, unsatisfactory situations in vertical power distribution, etc.

The Europe '92 project is not a suitable means of eliminating the abovementioned deficits — which are regarded in many problem regions as the sole reason for their present situation. This has never been the objective of the Europe '92 project; the primary aim was clearly to increase the competitiveness of the Community as a whole, even if this had the unplanned side-effect of increasing regional and social differences. However, the question now arises whether this is still an appropriate point of view given the moves towards greater political integration of the Community. Since this is certainly not the case, it remains to be decided how the units which go to make up the Community can be prevented from drifting further and further apart. It would be beyond the remit of this study to put forward a comprehensive, differentiated plan. Nevertheless, we shall now make a number of economic policy recommendations which we believe to be important and which would have to be borne in mind in any attempt to reform regional policy.

Infrastructure policy is an important part of regional policy measures, particularly in structurally weak areas. Like regional policy, infrastructure policy — at least as seen from the functional point of view — is not an independent policy field, but instead is an aspect of training policy, cultural policy, transport and energy policy, industrial, research, technology or even agricultural policy, as the case may be. Our discussions with local experts revealed again and again that these policy areas have far more direct and enduring effects on regional economic structure than regional policy measures in the strict sense.

A regional policy which takes account of these multi-level relationships is what should be aimed at. This means, first and foremost, that the local efficacy of these — often competing — policy fields should be examined, as their effect is usually counterproductive from a regional policy point of view, particularly in structurally weak regions. A regional policy of this kind will become even more important in the large European market of the 1990s, as this study has shown. If this aim is to be met, appropriate resources are needed, which could be provided most effectively by shifts of emphasis in the EC and national budgets. In addition, the increased growth engendered in the prosperous regions by the Europe '92 project will release more funds for distribution in the national budgets, which could be used to provide funding for the problem areas.

The number of regions benefiting from regional aid must be further grouped and concentrated. Some activities tending in this direction are already under way here and it must be strongly emphasized that regional policy can only work if it is selective, i.e. the number of regions given aid is kept as small as possible and coincides with political and administrative borders. The Objective 2 and 5b regions seem to offer particular scope for change, but even in the case of the Objective 1 areas a reduction in the regions receiving aid would be conceivable in the medium term (see Table 1).

Regional business promoters in problem regions are constantly stressing that there are limits to what the financial possibilities available to them can achieve, for example in the case of possible new businesses (investment grants, etc.), and that substantial grants are in fact also being given in the economically stronger regions by one means or another. This robs the regional policy instrument of investment promotion of its clout in structurally weak regions. From this point of view better investment control as part of the competition law provisions could have a very significant effect in terms of regional policy.

Greater care must be taken to ensure that the existing imbalances in rates of development funding are counteracted by more even spreading of resources. In the comparison between Bavaria and the Highlands and Islands, for example, it would seem that Bavaria takes full advantage of EC funding, partly because the national contribution is fully realized and partly because projects are more precisely identified and planned in greater detail, so that they have a greater chance of being realized. In Scotland, on the other hand, both the national financial contribution and appropriate carrying through of projects seem to leave a lot to be desired.

The integration aspect of aid to Objective 5b regions is also somewhat prejudiced by the fact that the primary sector is over-represented, the secondary and tertiary sectors under-represented at the project planning stage. This corresponds to the initial situation (particularly in mainly agricultural regions), but when it comes to setting aims (alternative employment, integration into the economy as a whole) the two other sectors must also be given an advisory function, for example by involving the chambers of industry and commerce more closely. There is also the question whether a greater effort should not be made in future to coordinate the allocation of funds at a more local level, possibly through existing or future EC ministries in the national and regional parliaments, which would also play a central role in the related planning.

The frequent practice of using EC aid simply to subsidize existing national aid programmes leads to a weakening of the EC's influence. This undesirable trend should be halted by stricter rules and intensified efficiency controls. EC development aid should act as a genuine stimulus in its own right.

Even if regional bodies should be given a decisive role at local level in formulating and implementing programmes (and corresponding administrative structures created or developed), efficiency controls must take place at EC level — at least for EC funds. Efficient use of resources must become more of a requirement than has hitherto been the case, particularly in the case of large projects. The regional representatives themselves were the first to stress the importance of this aspect in our discussions.

In the long term regional policy can only be successful if there is an appropriate control structure at local level. Special regional interests seem to be better represented when there are local partners with suitable powers of decision-making and autonomous action.

It should be clear at the stage of fund allocation that the national government is also able to make its financial contribution and willing to allocate it to the region in question. The Outer Hebrides, for example, actually qualify for Objective 1 funding for fisheries, but are unable to benefit from it because the corresponding national funds are not forthcoming or are allocated according to criteria which fail to take special regional situations into account.

The problem areas and strategic approaches mentioned so far are all to a great extent consequences of the existing political-administrative structures between the EC institutions and the national and regional bodies (drafting of programmes, executive control and provision of funding), or else they have general, i.e. not specifically EC-related, causes (competition and interdependence between different policy areas).

A more detailed development and analysis of possible measures to reduce regional policy disparities on the basis of the increased problems diagnosed in this study is hence a difficult task: the abovementioned political and institutional rules and framework conditions are not a suitable basis for developing optimal strategic approaches.

However, should a political decision in fact be taken which would make possible this combination of a 'regional regional policy' and centralized regulation and evaluation at EC level (which could be achieved essentially by the national governments), the following initiatives to improve the situation of the EC's problem regions would become relevant:

(i) In the Objective 5b and 1 areas, small and medium-sized undertakings in the secondary and tertiary sector are particularly important. They are the only ones who can give local stimulus covering more or less the whole area and offer alternatives to the declining local primary sector. Regional chambers of trade can be of considerable help in the areas of both training and marketing. It would be worth considering whether the representation of small and medium-sized firms could be organized along the lines of the German chambers of trade (or comparable institutions in other countries), for example, in regions of the EC where this is not yet the case. Depending on the local situation, greater involvement of local interest groups in actively advising and informing local businessmen would be desirable.

(ii) In the ever more baffling complex of regional, national and Community development aid, advice will become very much more important. In this case the organization into which the Highlands and Islands Development Board has recently been changed could serve as an example of training and advice tailored to the needs of businesses in problem regions. Generally speaking, an active information policy (giving unsolicited information) is more desirable than a passive one (waiting to be asked).

(iii) In the area of interregional cooperation, it emerges that the problem regions are at a particular disadvantage, since they can contribute less and are therefore not attractive enough as partners. They should be given special assistance in this respect (sponsorship, EC exchange grants, language programmes, transfer of institutions and organizations to the periphery). It would also be conceivable, as part of the interregional programmes, to promote regional cooperative projects in which more favoured regions would be twinned with the problem regions having the greatest need. Project-linked grants would certainly be the most suitable in this context.

(iv) As far as infrastructure is concerned, 'soft' infrastructures (culture, leisure, environmental protection, social infrastructure), as well as the whole area of human capital infrastructure should be given greater support. This would also assist the tourist industry, which is regarded in many peripheral problem areas as a central factor of development. However, a more detailed examination would have to be made of what this area really has to offer, how past mistakes ('social and environmental impact') could be avoided, and what features are available and capable of development in the various regions (cures, specialized medical treatment, etc.). This analysis of the situation and its potential is all the more important since many experts in the regions which are pursuing more energetic development policies in this area fear the growing competition from the East European countries.

(v) Inadequately developed infrastructure is a particular problem in the Objective 5b areas because of sparse population and, often, a very peripheral position. Short-range transport in particular is becoming more and more of a problem. Under the present aid regime this circumstance is taken too little into account. The so-called 'citizens' buses' would offer the possibility of tailoring short-range transport exactly to users' needs.

(vi) Specific aid to undertakings and new undertakings will gain in importance, above all because site-specific tax advantages which have hitherto worked to the advantage of the problem regions may disappear in the wake of EC harmonization and/or the situation of the problem regions is made worse as a result of EC harmonization. In order to introduce effective regional policy measures in this area, maximum development aid rates and criteria must be clearly set out, particularly in order to avoid multiple and indirect aid.

(vii) Greater control should be exercised to ensure that individual infrastructure measures and new undertakings are really having the expected effects on employment in the region. In other words, it would be worth considering giving aid whenever possible to projects which can be implemented by undertakings already present in the region, or which will at least create or maintain jobs in the region.

MAIN REPORT

Introduction

1. The IFO Institute for Economic Research was commissioned by the European Parliament to carry out a study to assess 'the impact of 1992 and associated legislation on the less favoured regions of the European Community'.

2. The overriding question was whether the achievement of the objective of the socioeconomic cohesion of the units which make up the Community would tend to be jeopardized or largely ensured by the internal Community market.

3. This approach to the problem resulted in special account being taken of areas and regions currently contending with structural and development problems, i.e. regions and groups of regions defined in the standards relating to assistance granted under the Community's regional policy as being underdeveloped (Objective 1 regions), as having structural problems particularly in the industrial sector (Objective 2 regions) or as being characterized by rural structures at a low level of socioeconomic development (Objective 5b regions).

4. It could not be for the researchers to develop a self-contained system of empirical and quantitative analyses of unequivocal cause-and-effect relationships between the internal market project and the socioeconomic performance of individual regions and groups of regions.

What is required, on the other hand, is a plausible combination at both qualitative and quantitative level of indicators that suggest a trend in one direction or another and the presentation of a synopsis.

A scientifically based analysis cannot, however, be expected to reveal the part played by the internal market project in an identified trend as well as general tendencies (development of the tertiary sector, globalization, etc.) or how the problem of regional disparities would have developed if the internal market project had not existed. To some extent, this question is of no more than academic interest. If, for example, it was found that certain regions or groups of regions were likely to fall further behind in their development in the next few years, the Community's regional policy and, equally, the whole concept of integration would be directly affected even if no causal links could be detected between the internal market project and the widening development gap between rich and poor Community regions.

In either case the onus would, after all, be on the Community's institutions, if only because the Community's responsibility for regional policy is growing and, with it, its claim to be competent for problem-solving.

5. The study is divided into three main sections. In the first the package of Europe '92 measures is examined for any divergence in its effects on the various regions.

In the absence of empirically accessible indicators and in anticipation of changes to legislation that have yet to be made in many cases, the aim in this section is to make a primarily qualitative forecast of the impact of the Europe '92 measures, with account taken of regionally specific structures and effects, the object being to formulate working hypotheses, which will then be reviewed in the following sections.

In the empirical part of the study (Chapter 2) the relevant indicators and levels of investigation are first presented, and their selection is explained. Given the dearth of regionalized information available and the large number of regions to be examined, the choice of empirical indicators at both qualitative and quantitative level was bound to be limited.

Chapters 3 and 4, which form the main part of the study, assess the Objective 1 and 2 regions by reference to the indicators described in Chapter 2. This approach cannot be adopted for the Objective 5b regions (Chapter 5) because the number of economic areas in this category is too high.

The aim is to identify the economic areas in each category which the quantitative and qualitative indicators we have used show to have performed best and worst in relative terms in recent years.

This approach was based on the idea that the features which the regions in a category have in common can best be identified by means of a comparison of this kind, after which it may actually be possible to reveal similar problem situations and prospects for a group of regions.

Box 1 — Main features of the Community's programme for the completion of the internal market

The liberalization measures for which the Commission's White Paper provides essentially entail:

- the removal of frontier controls on people and goods within the Community,
- the harmonization of indirect taxes,
- the harmonization of company law,
- freedom of movement for employees and freedom of establishment for enterprises,
- the mutual recognition of vocational certificates and university degrees,
- a new strategy for national consumer, employment and environmental protection legislation (mutual recognition, concentration during harmonization),
- the opening up of public procurement systems and the extension to public enterprises of the Community-wide obligation to invite tenders for contracts,
- the liberalization of the movement of capital and deregulation in banking and insurance,
- the deregulation of the transport market and the removal of barriers to market access in the communications sector.

1. Hypotheses on the regional effects of Europe '92

6. To answer the question whether the internal market measures will have different effects on the various regions and, if so, what these effects will be, the following analytical approach is appropriate: an economic area's development potential and prospects are determined by:

(i) a regions's present infrastructure, economic structures, lines of development and strengths; this type of approach to the problem emphasizes the endogenous factors and determinants conditioning regional development *(1.1)*;

(ii) externally induced development catalysts, which may be positive or negative; this approach, which highlights the exogenous influences or interaction between economic areas, identifies all economically relevant interaction (foreign investment, migration, trade structures), i.e. an economic area's external relations *(1.2);*

(iii) the regionally different effects possibly emanating from the specific context of certain packages of Community measures; the aim here is to establish whether, for example, the effects of the deregulation planned for certain sectors (transport, financial services) as part of the Europe '92 project will differ in the various regions. This approach has already been developed at country level (Commission of the European Communities, 1988). The situation in the regions, i.e. subnational units for the most part, will be investigated here *(1.3).*

As these three analytical levels are linked and interdependent in many ways, the distinction made above can be regarded as no more than an aid.

1.1. The endogenous factors conditioning regional development in the European internal market

7. As already emphasized in the introduction, this approach concerns the situation before the internal market is actually completed. None the less, it is of paramount importance for the assessment and evaluation of the situation and prospects of an economic area.

Thus, as the following analyses will show, there are many instances of regions whose existing capacities (economic structure, infrastructure, etc.) give them little chance of participating in the internal market project. If, for example, a region's production and product structures are such that little is exported and export ratios are, moreover, declining, its links and interaction with other economic areas therefore being very limited or at least one-sided, its chances of penetrating new markets or benefiting from the removal of frontier and import controls, which will have the direct effect of reducing costs, are also bound to be more limited.

8. This then gives rise to the question of the outlook over time. Will the growing polarization of the Community's regions to be inferred from the above hypotheses be temporary or permanent?

Many theorists maintain in one way or another that divergent development will be no more than temporary and will be followed by a period of convergence.

They argue that the necessary modernization of the economies of underdeveloped regions will take some considerable time. The accompanying frictions will be reflected initially in a widening development gap, but in the medium and long term this trend will lead to the improvement of the relevant position of less favoured regions.

Thus Booz, Allen and Hamilton (1989) expect the implementation of the Europe '92 programme to encourage modernization in less developed Member States, especially in the food and semi-luxuries, textiles, clothing, footwear, financial services and transport sectors. They argue that output and productivity will therefore receive a significant boost in the structurally weak countries and regions of the Community in the medium and long term.

Initially at least this process of restructuring and rationalization will, however, lead to redundancies, thus imposing a heavy additional burden on the regional labour market.

In some respects the processes of adjustment and restructuring in the old industrial regions of the Community, mostly located in the North, differ from the pattern just described: although many are subsidized (steel, coal), the industries in these regions are experienced in international competition and — with the possible exception of the Spanish Objective 2 areas — have already made most of the necessary adjustments. Nevertheless, a substantial proportion of the labour force is still employed by traditional large enterprises, where growth prospects are limited and economies of scale are still possible (Commission of the European Communities, 1989). After the completion of the internal market these industrial sectors will still have to contend with various restructuring requirements and possibly mergers and takeovers, which may also affect ancillary firms.

The following empirical studies will consider whether and in which regions there are indications that endogenous as well as exogenous incentives and measures are prompting the adjustments needed for Europe '92.

1.2. The exogenous factors conditioning regional development in the European internal market

9. These efforts to modernize and adjust may also be encouraged by incentives from outside. Of prime importance and also sufficiently verifiable empirically is investment from abroad and from the national economic centres.

The theorists assume that injections of external capital are gaining in importance for the development prospects of economic areas whose level of development is declining (see Molle, 1989; Nerb/Reuter, 1991). This is due not only to the capital injection itself but above all to the transfer of urgently needed technological and management know-how to structurally weak regions that usually accompanies it.

10. If one of the main features of the Europe '92 project is that individual enterprises are already taking practical measures to cater for expected changes in the economic and political environment with a view to safeguarding existing markets and developing new ones, the same must apply to foreign investment. This study is based on the premise that Europe '92 is considered in the decisions enterprises take on investment and specifically on foreign investment.

Another interesting question, however, concerns regional allocation. Which regions and sectors within a given market attract this foreign investment? In which regions can it be assumed that foreign investment will make a decisive contribution to modernization? Which regions are not currently participating in these developments? It can be assumed that the resulting data contain important early-warning indicators needed for the assessment of regional development prospects.

1.3. The effects of individual packages of measures relating to Europe '92 on economic areas

11. Another way to gauge the impact of Europe '92 on regional units is to study the various areas of deregulation and measures themselves. A number of examples will be given in the following.

On the whole, it has proved very difficult to develop the 'top-down' approach appropriately, i.e. to estimate the probable regional effects of specific deregulation measures at a deductive analytical level. In each area of deregulation a counterhypothesis can immediately be developed for any hypothesis and claim to be equally valid. This is particularly clear from the liberalization of the transport sector and the resulting implications for peripheral areas.

A number of hypotheses on this sector are none the less developed in the following. Only when we reach our final comments will it be necessary to use the various case studies to explain which of the hypotheses developed below are more or less significant.

12. It is generally said that small and medium-sized enterprises (SMEs) will especially suffer after 1992 because many of them are ill prepared for the significant changes that will occur (see Nam/Nerb/Russ, 1990). In addition, they have only limited horizons not only where their technology but also their markets are concerned. Recently little innovation has been carried out by SMEs and there are very limited technological opportunities that may be open to them. Their main strength is that they meet local needs by virtue of physical proximity. However, reduced transport costs and better market accessibility expected in the future will make them vulnerable to other competitors in the EC. Besides, many SMEs will face the threat of take-over as big firms seek to strengthen their position on the EC market.

13. In the short run, the completion of the internal market tends to lead the less developed regions to specialization in labour-intensive industries, realizing existing comparative advantages, such as the textiles, clothing and footwear industries, where increased competition from developing countries and Eastern Europe is also expected.

By contrast, central regions would increasingly carry out R&D and capital-intensive activities, which consequently means that the present regional inequalities between the centre and periphery would be maintained or even increased in the future.

14. After the implementation of the European internal market the relationship between regions in the Community is expected to be restructured and to become closer in general, as a consequence of corporate linkages/networks such as inter-firm and cross-border agreements, associations, collaboration, mergers as well as the political initiatives associated with European integration. However, such regional cooperation will most probably occur between the regions which neighbour each other geographically and which have a similar industrial and economic structure as well as a common interest in further development (horizontal cooperation). A kind of vertical cooperation between prosperous and less developed regions will be relatively seldom.

15. Empirical studies on the regional consequence of the liberalization of financial services (PA Cambridge Economic Consultants, 1990) and of the opening up of public procurement markets for telecommunications and railways as well as electricity production equipment (Cegos-Idet, 1989) suggest that recent trends of corporate restructuring, also in the way of transnational cooperation of large producers, will continue also after 1992 and subsequently conclude that the major metropolitan areas in the Community seem to profit most, on which the higher-level acitivities in these sectors would further concentrate (see also Nam/Reuter/Russ, 1990). This sort of greater concentration of economic activity in the core regions is threatening to worsen the peripheralization of regions, particularly underdeveloped regions in southern Europe and Ireland.

16. On the other hand, the removal of trade and market-entry barriers increases the variety and quality of services such as financial and business services as well as transport and telecommunications while reducing costs. This will improve business conditions and contribute to the economic development of weaker regions poorly endowed with such services in general. For example, current experience in the United Kingdom shows that the policy measures of promoting regional transport based on deregulation and a free market to allocate resources have achieved much, including

(i) a higher level of service and lower fares on transport between the capital and the regions as a result of deregulation;

(ii) development of interregional railway services in an environment in which the railways are competing with buses and coaches, helping to promote transport between provincial regions;

(iii) improvements in the level of local service in some areas following deregulation, thus promoting transport within regions;

(iv) pricing policies adopted commercially, which promote both regional and interregional transport. (See Economic Research Centre, 1990).

17. The liberalization of public sector procurement contained in the Europe '92 programme is an important issue in the process of creating the single market. Procurement in three areas of public purchasing will be affected: contracts of suppliers including telecommunications, equipment for government use, etc., and works contracts including construction and service contracts such as street cleaning, maintenance and repair of vehicles and professional services like architecture and engineering, software development, economic development consultancy and research, etc. (see Centre for Local Economic Strategies, 1990).

Among them changes to procedures of service contracts are likely to have the earliest and most direct impact on local authority practice and regional economy.

However, past 'experience in public purchasing under the regulations which have been enforced since the UK became a member of the Community does not suggest that large numbers of local authority contracts will immediately be won by continental suppliers or contractors, although some small gradual change may be expected' (Centre for Local Economic Strategies, 1990a, p. 5).

It has also been suggested that the direct impact of the liberalization of public procurement will probably have very limited effects on the local or regional market, e.g. for building materials. Due to different preferences, geographical and climatic conditions, each region has traditionally developed its own style of construction, sometimes using specific materials. In addition, building materials are generally heavy and big, so that a trade over the country border will cause problems and high transport costs. Consequently, the local suppliers of building materials will enjoy the comparative advantage as before.

18. Existing wide regional disparities, especially in unemployment and income, together with labour shortages in the developed regions of the Community as well as the progressive removal of barriers could lead to internal migratory movements within the Community.

In recent years, migration of labour from the lagging countries and regions of the EC toward the central Member States has reduced significantly and large-scale migratory flows were observed (see Commission of the European Communities, 1990a). Ireland is an exception where net migration is still taking place, especially to the UK (probably, common language and culture make it easier).

There were also moderate flows from the rural periphery to the central cities and continuing return migration, although the scale has been getting less. For example, in most of the mature industrial cities in the north of the EC, there has been an increasing movement out of the inner city areas towards the suburbs and the urban periphery.

The opening-up of trade and information exchange in the context of the internal market will permit more contact and exposure to new information as well as ideas which could lead to challenges to existing (traditional) social structures and systems in the regions of the EC. However, they could also be a powerful stimulus to innovation in not only economic but also social activity.

19. The main issue for the lagging countries and regions is how to overcome their development bottlenecks and catch up as fast as possible with the most prosperous parts of the Community. In the movement to European monetary union (EMU),[1] which is designed to guarantee economic stability, particularly price stability, it is becoming increasingly apparent that the effects of EMU, involving the need to harmonize budgetary policies and the loss of the exchange-rate instrument, could impede efforts of the poorer countries to achieve faster growth than the central regions of the Community.

Apart from these macroeconomic effects, a significant effect of EMU on less favoured regions can be shown in relation to the underdevelopment of the financial market in these regions. For example, interregional disparities in the cost of credit appear to be large in lagging regions (recently short-term interest rates were about 2% higher in the south of Italy than in other parts). In addition, the allocation of credit in these regions is constrained by the existence of liquidity controls by national or local monetary authorities. Due to these direct controls as well as information asymmetries, local banks stand between international credit markets and domestic borrowers, enjoying a quasi monopoly position (see Commission of the European Communities, 1990a). Local lenders have comparative advantage over foreign banks, because the latter generally lack information and knowledge on local clients. With full monetary union and the implementation of the internal market, the borrowers will have direct access to foreign banks, whether locally established or not.

Apart from this positive effect on credit availability, the borrowers of less favoured member countries will enjoy a lower level of interest rates than those prevailing in these regions before monetary unification.

[1] EMU is not necessarily an integral part of the EC '92 programme. But the chances for realizing EMU have much increased thanks to EC '92. For that reason it seems justified to consider the effects of EMU in this study which mainly focuses on the direct effects of EC '92 on the regions.

2. Account of the indicators and levels of investigation used and the selection of case studies

2.1. Preliminary remarks

20. The following section explains the selection of the case studies, which are then considered in greater depth in Sections 3.2, 4.2 and 5.2.

A few preliminary remarks in this connection: as already mentioned in the introduction, the aim was to identify in each group of problem regions, 1, 2 and 5b, the economic areas which have performed relatively better or relatively worse than the other regions in the same group in recent years. This approach was prompted by the initial consideration that it would take greatest account of the possible variation within a given cluster. If uniform statements were to be made on tendencies in a group of problem regions, it was, after all, necessary to begin by examining their homogeneity.

The selection of case studies was to be made at a wide range of levels of investigation, and yet it had to be simplified, particularly where the number of indicators used was concerned.

At the abovementioned levels of investigation the selected indicators primarily describe the endogenous requirements for the development of an economic area and the exogenous incentives it receives. More specifically, a distinction was made between population and migration, economic structure and labour market, infrastructure and foreign direct investment. This made it possible to draw a multi-faceted picture of the competitiveness of the regions and groups of regions studied.

The proximity to the actual subject of this study stems from the hypothesis that the regional opportunities and requirements for deriving benefit from the 1992 project essentially depend on the abovementioned determinants of regional competitiveness. This aspect will be considered and explained in the case studies. It also proved very useful during on-the-spot research to discuss the effects of Europe '92 on a regional economic system by referring to these categories of regional competitiveness and so to draw conclusions indirectly, through a combination of both levels.

21. The various levels of investigation and the indicators used will now be presented, taking the Objective 1 and Objective 2 regions as examples. It will then gradually become clear why case studies have been made of certain regions in the various groups.

All the Objective 1 regions are analysed, whereas a selection has been made from among the Objective 2 regions. This was necessary because resources from the structural Funds are allocated to only very small parts of Objective 2 areas in many Community regions at NUTS II level (see Section 4.1). Lombardy, for instance, appears in the list of regions receiving Objective 2 assistance even though the region as a whole — and it alone can be entered in the statistics — does not have the features of an Objective 2 area. Nor could a selection procedure like that described above be used for the study of Objective 5b regions, since the very large number of (very small) regions receiving Objective 5b assistance made it necessary to base the selection entirely on qualitative factors (5.1).

2.2. Indicators of regional competitiveness and selection of case studies

2.2.1. Demographic development and migration

22. The unfavourable labour market situation, particularly in the Objective 1 regions, is due not only to economic structures but in no small measure to natural and migration-related population trends.

The situation in the Objective 1 areas is as follows: the labour market situation is further exacerbated by the natural population trend and net migration, which as a rule has not been negative in recent years. Unlike the 1950s and 1960s, when there was large-scale migration from the structurally weak regions to the economic centres, thus easing the burden on the labour markets in those regions, the present situation is characterized by continuous population growth there. Even where appreciable migratory movements continue (as in Ireland and in the southern mainland regions of the Mezzogiorno; see Svimez, 1990), they hardly compensate for natural growth.

23. The motives for migrating, and not migrating, are many and varied. The most important motive for migration — the prospect of finding employment in the economic centres — is undoubtedly far less prevalent than it was three or four decades ago. The attraction of the economic centres has waned principally because the potential labour force there has similarly increased as a result of both the demographic trend and migration from Eastern Europe.

The decline in interest in migration may be partly due to the host region being far less tolerant towards these (potential) immigrants. At a sociocultural and party political level this is particularly evident, for example, in the relationship between the north and south of Italy.

Changes of attitude due to changes of values may also play a part: potential emigrants may, for example, be less willing to pay the negative external cost of their emigration (loss of social ties, etc.).

A further explanation for the waning interest in migration may well be the greater skills required in the developed regions, making it difficult to integrate workers with limited training and experience.

Whatever the reasons, the fact is that the strategy of 'passive rehabilitation', always controversial as an instrument of regional policy, is even less politically acceptable today than it was in the past.

24. It must be assumed that in the medium term at least the basic situation will remain as it is. There are no signs at present of this pattern of migration changing in the near future: after a very long buoyant period in the Community's economic centres and with mobility of labour within the Community already largely guaranteed, there are no indications, where intra-Community migration is concerned, of any major changes in general conditions in the future to cause a shift in the trend (see Table 4). A different situation would arise only if the restructuring in the USSR and other East European countries led to massive East-West migration, which would be difficult to control politically, but which experience so far shows would head primarily for the western agglomeration centres and developed regions.

The question of current and expected major migratory movements, though one of the main aspects considered, applies only to the structurally weak areas and movements between them and the economic centres. As this aspect is relevant to Objective 2 and 5b regions only in specific cases, if at all, these groups of regions will not be analysed in this context.

2.2.2. Economic structure and labour market

25. The only indicators used to assess the economic and labour market situation are those provided at Community level, which are therefore harmonized.

In Figure 1 an indicator for the assessment of the level of economic activity (GDP per employee in 1988) and a labour market indicator (change in the unemployment rate in percentage points from 1985 to 1989) have been taken into account. According to these indicators, the decline was greatest in the southern regions of the Italian Mezzogiorno, and particularly in Calabria and Basilicata. Starting from very high unemployment rates, the situation has grown worse in these regions since 1985, thus contrasting with a falling unemployment rate in most other Objective 1 regions.

Unemployment in the other Mezzogiorno regions also rose sharply in this period. Only in the Abruzzi, where the unemployment rate had previously been comparatively very low, was it possible to stabilize it from 1985 to 1989. In Sardinia the unemployment rate fell somewhat, although here again the initial level was very high.

Recently published figures for 1990 similarly show unemployment rates of between 20 and 26% in Basilicata, Sicily, Calabria, Extremadura and Andalusia (see Figure 2). The distribution of employment by sector reveals that the primary sector still accounts for a high proportion in all Objective 1 regions, although it has been declining sharply since 1979. Corsica and Ireland are exceptions (Figures 3 and 4). This confirms the findings of other studies, according to which the decline in the number of employees in agriculture, a trend to be welcomed in economic policy terms, has not as a rule led to stronger development of the industrial sector. However, this process does not yet provide any clues as to the efficiency of the services sector. In all the Objective 1 regions this has been the most dynamic sector in recent years, although its structures have a number of specific features (Section 3.2).

26. In the case of the Objective 2 regions (see Figure 5) the same indicators show that Belgian Limburg performed comparatively better, as did Greater Manchester, Cleveland/Durham, Merseyside and West Scotland. The rise in unemployment rates in the period covered by the study was highest in Cantabria, Veneto, Liguria and Nord-Pas-de-Calais (see also Figures 6 to 8). Unemployment rates are highest in the Spanish Objective 2 regions (see Figure 6).

As the distribution of employment by sector reveals profiles and trends that differ widely from one region to another, it is difficult to make generalizations. The proportion for which the primary sector accounts varies from 18.4% (1987) in Cantabria to 1 to 2% in the German urban regions of Bremen and Düsseldorf.

Table 4 — **Population growth and migration rate in the Objective 1 regions**

	Population growth rate 1980-85[1] in % year	Net migration rate 1980-85[1] in % year	Growth rate + Migration rate +	Growth rate + Migration rate 0	Growth rate + Migration rate —
Galicia	0.3	0.0		×	
Asturias	0.2	−0.1			(×)[3]
Castile-Léon	0.4	0.0		×	
Castile-la Mancha	0.4	0.0		×	
Extremadura	0.4	0.0		×	
Valencia	0.8	0.0		×	
Andalusia	1.0	0.0		×	
Murcia	1.2	0.0		×	
Canary Islands	0.7	0.0		×	
Corsica	0.8	0.8	×		
Campania	0.7	−0.1			(×)[3]
Abruzzi	0.4	0.3	×		
Molise	0.4	0.1	×		
Puglia	0.7	0.0		×	
Basilicata	0.2	−0.3			×
Calabria	0.5	−0.1			(×)[3]
Sicily	0.6	0.1	×		
Sardinia	0.6	0.1	×		
Northern Ireland	0.2	−0.4			×
Portugal	0.8	0.2	×		
Greece[2]	0.6	0.2	×		
Ireland	0.8	−0.3			×
EC average	0.3	0.0			

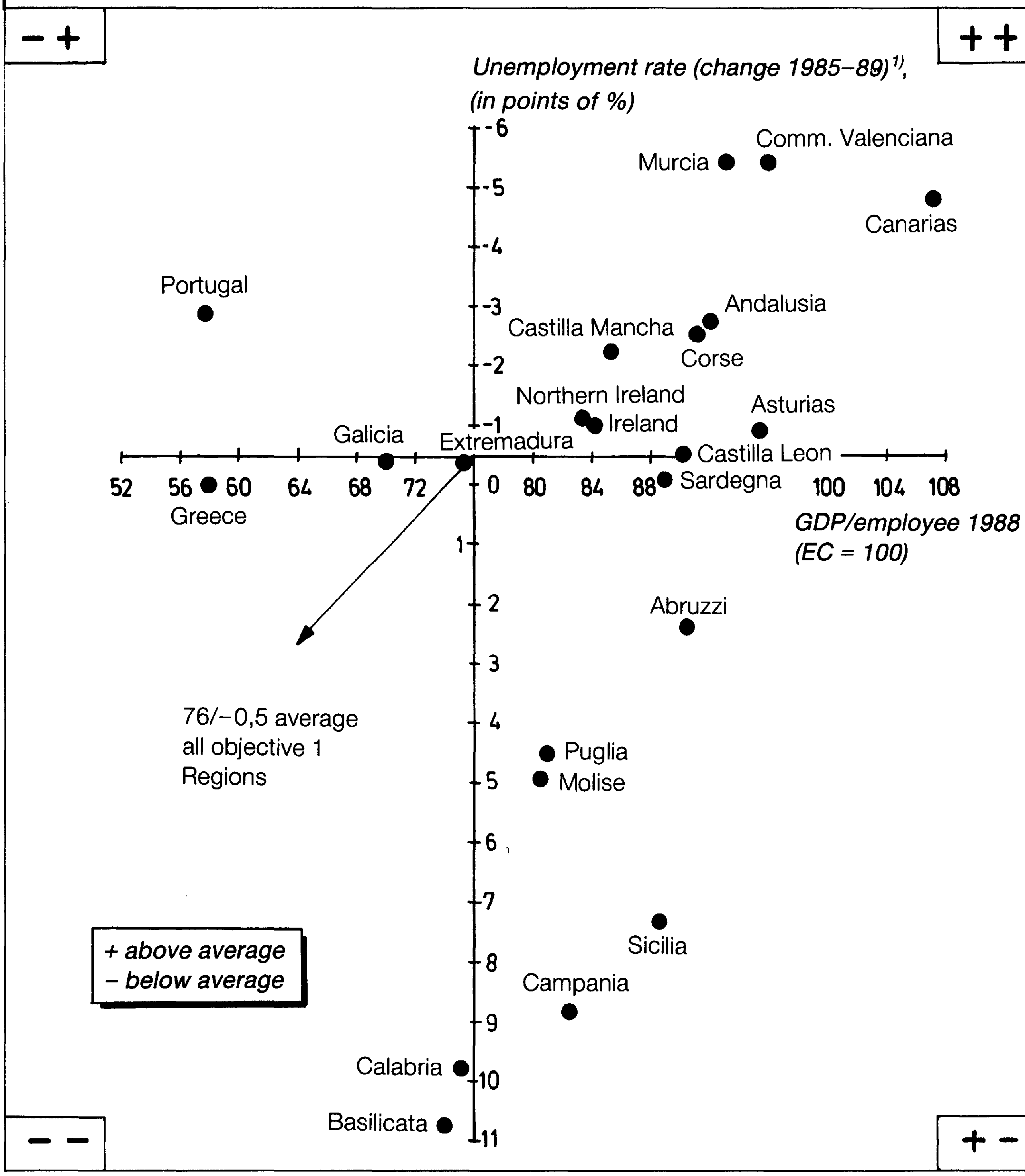
Source: Commission of the European Communities, 1989.

[1] Net migration rate: difference between the total change and the natural change in the population (as a % of the average population for any year.

[2] 1979-82.

[3] Marginal.

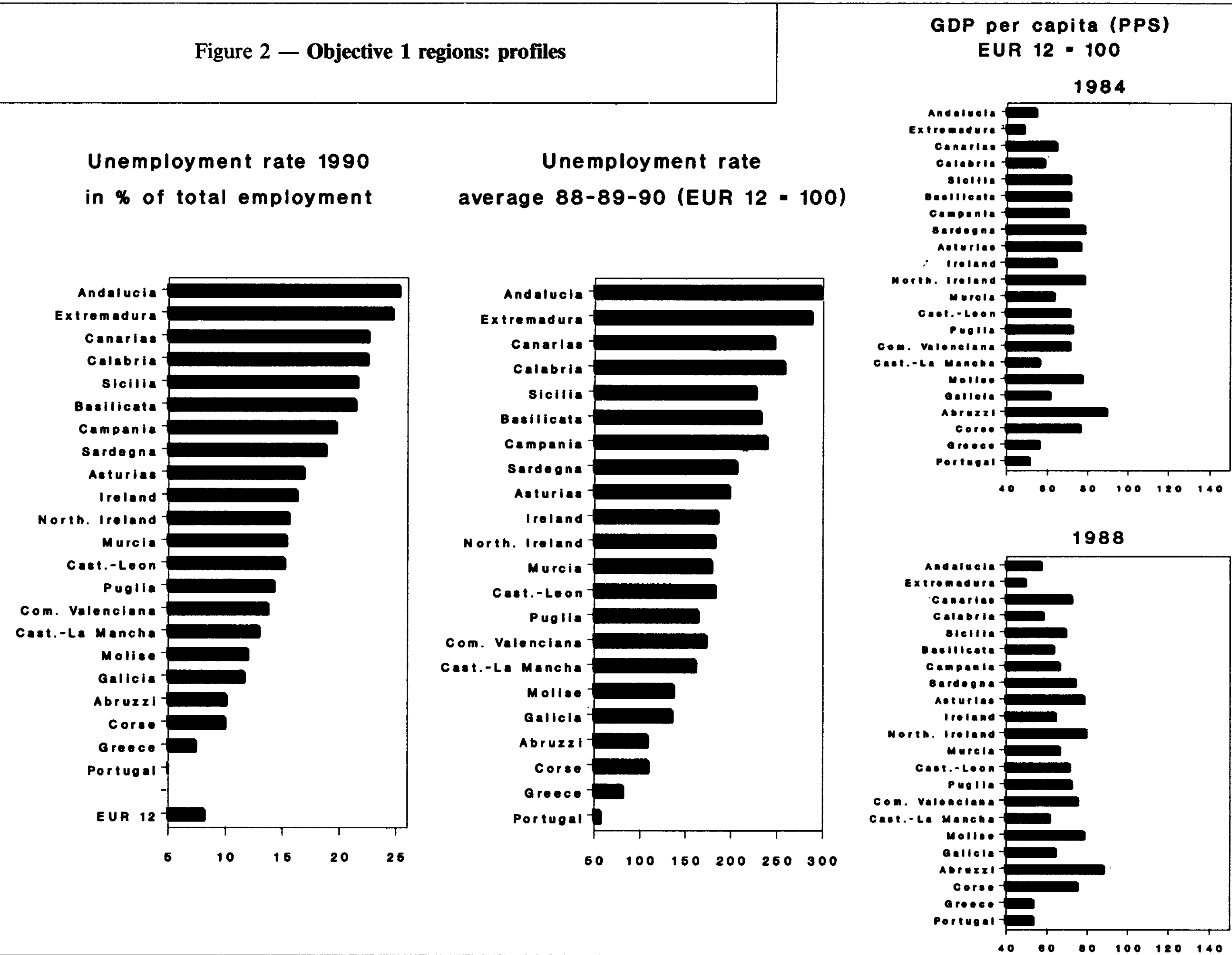
Figure 1 — **Unemployment and productivity in the Objective 1 regions**



Source: Commission of the EC, *The regions in the 1990s*. Fourth periodic report on the social and economic situation and development of the regions of the Community, 1991.

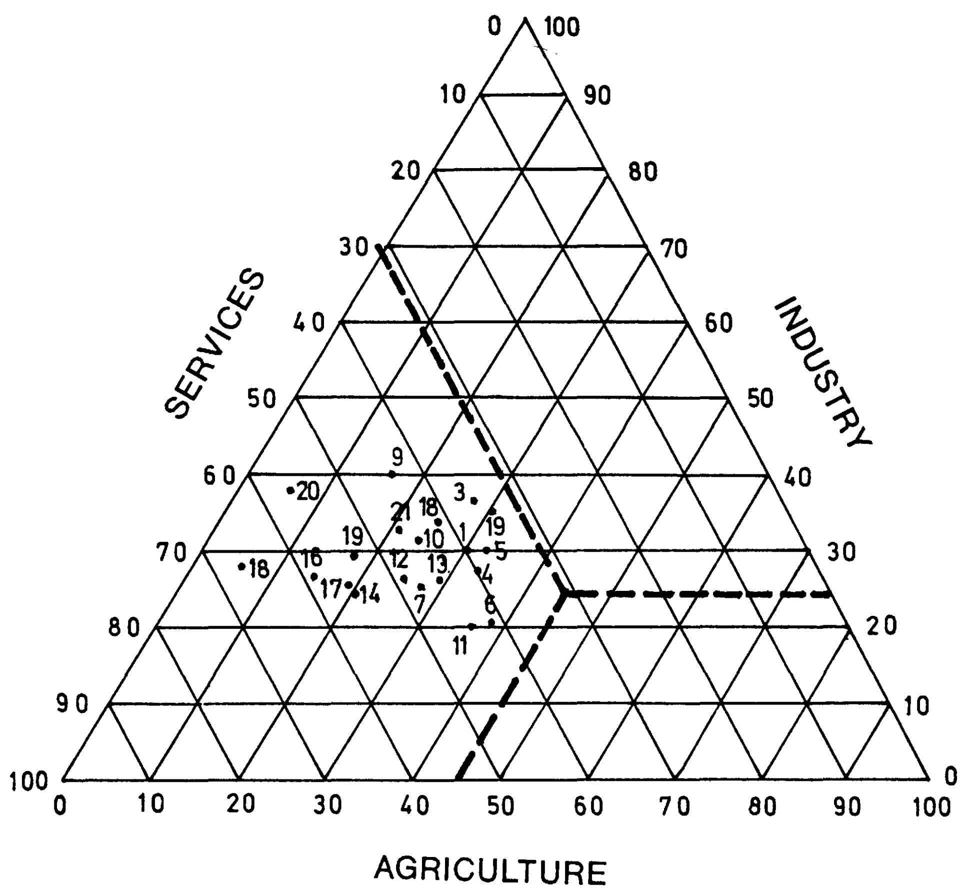
Note: This figure shows the relation between the level of productivity in 1988 and the change in unemployment rate between 1985-89 in percentage points. For example, in Abruzzi the unemployment rate has increased by 2.3%, i.e. below the average of all Objective 1 regions in the EC (−), whereas the level of productivity with an index of 90.5 stays above the average (+).

Figure 2 — **Objective 1 regions: profiles**



Source: Commission of the EC, *The regions in the 1990s,* 1991.

Figure 3 — **Distribution of employment by sector in the Objective 1 regions — 1979, in %**



	Agriculture	Industry	Services
(1) Greece	30,8	30,0	39,2
(2) Galicia	45,1	23,6	31,3
(3) Asturias	27,9	36,4	35,7
(4) Castilla-Leon	32,4	28,1	39,5
(5) Castilla-la Mancha	32,3	30,1	37,6
(6) Extremadura	38,8	20,1	41,1
(7) Andalucia	28,8	25,3	45,9
(8) Murcia	25,2	33,7	41,9
(9) Com. Valencia	16,9	40,2	42,9
(10) Abruzzi	23,2	31,8	45,0
(11) Molise	37,3	20,6	42,1

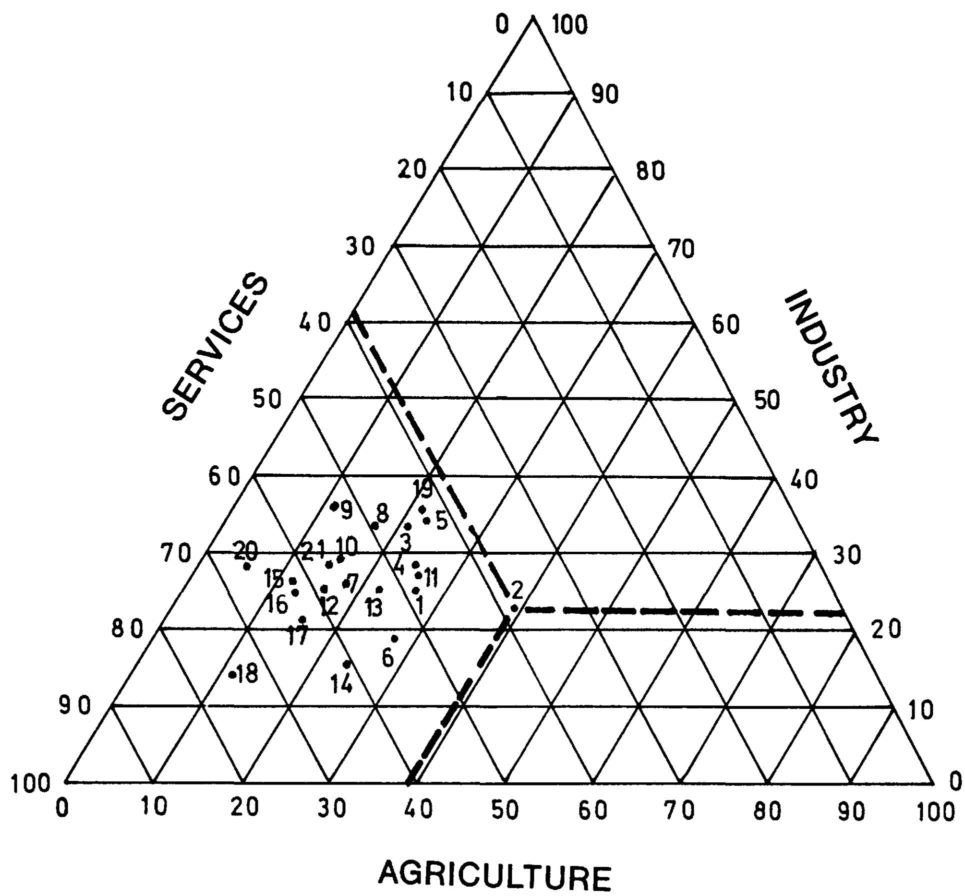
	Agriculture	Industry	Services
(12) Puglia	24,3	27,2	48,5
(13) Basilicata	29,3	23,8	46,9
(14) Calabria	20,2	24,0	55,8
(15) Campania	18,9	29,0	52,1
(16) Sardegna	14,1	27,4	58,5
(17) Sicilia	19,2	25,5	55,3
(18) Corse	4,5	28,7	66,8
(19) Portugal	30,6	35,0	34,4
(20) North.Ireland	6,2	37,5	54,6
(21) Ireland	20,4	31,8	46,4

Note: For example, the distribution of employment in the region of Galicia (No 2) was as follows: agriculture: 45.1%, industry: 23.6%, services: 31.3%.

Source: Eurostat, 1983 and 1987.

ifo

Figure 4 — **Distribution of employment by sector in the Objective 1 regions — 1987, in %**

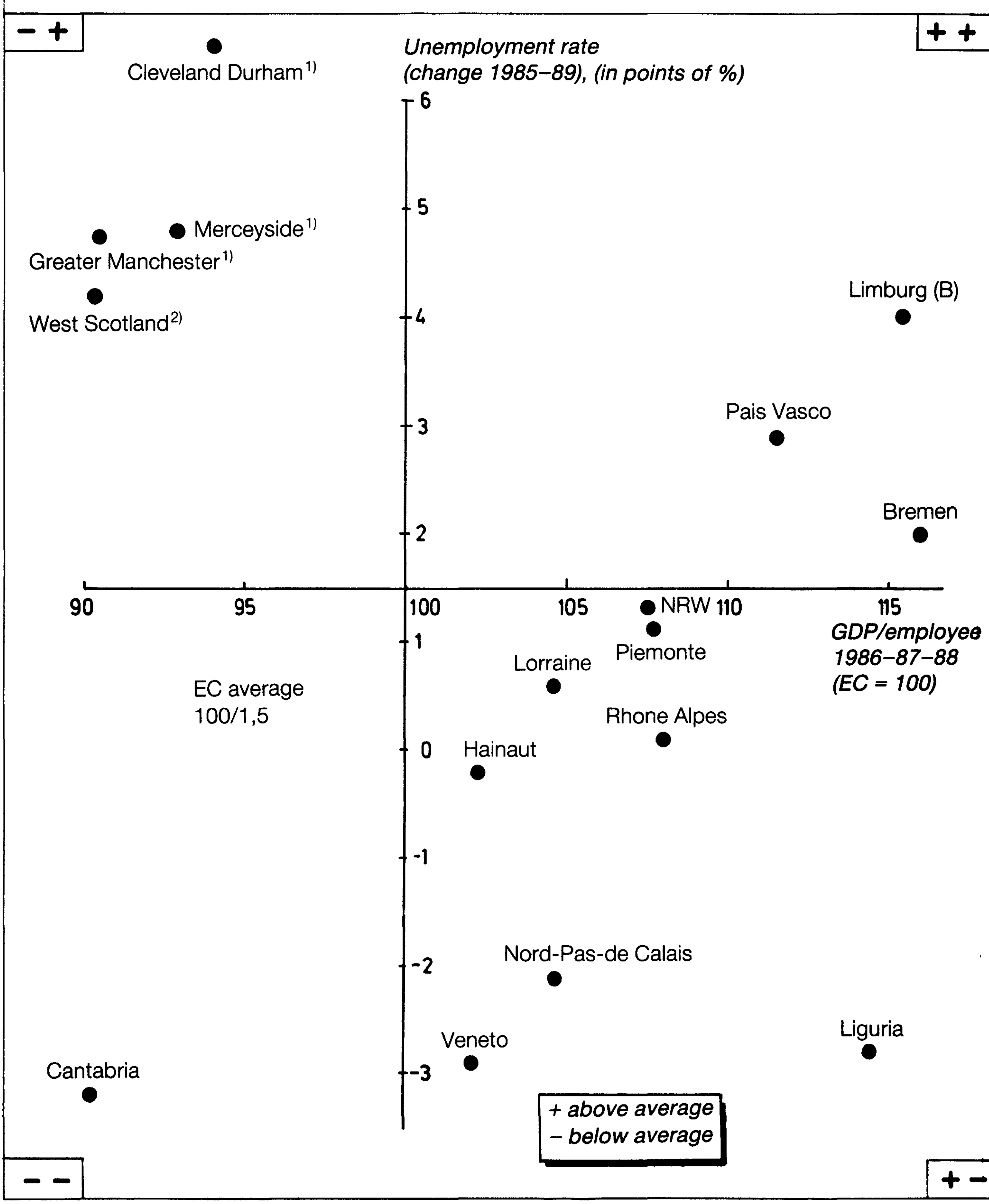


	Agriculture	Industry	Services
(1) Greece	26,6	25,4	48,0
(2) Galicia	39,3	22,8	38,0
(3) Asturias	21,6	33,3	45,1
(4) Castilla-Leon	23,9	28,7	47,4
(5) Castilla-la Mancha	22,3	33,9	43,8
(6) Extremadura	27,9	19,4	52,7
(7) Andalucia	18,4	25,3	56,2
(8) Murcia	17,2	33,2	49,5
(9) Com. Valencia	11,2	36,3	52,5
(10) Abruzzi	15,6	29,2	55,1
(11) Molise	26,9	25,0	48,1

	Agriculture	Industry	Services
(12) Puglia	17,3	24,4	58,3
(13) Basilicata	22,9	24,7	52,4
(14) Calabria	13,4	23,9	62,8
(15) Campania	13,2	24,1	62,6
(16) Sardegna	13,4	23,9	62,8
(17) Sicilia	16,2	21,4	62,4
(18) Corse	11,9	13,1	75,0
(19) Portugal	21,2	34,6	44,1
(20) North.Ireland	5,1	28,4	66,4
(21) Ireland	15,8	28,7	55,6

Source: Commission of the EC, 1991.

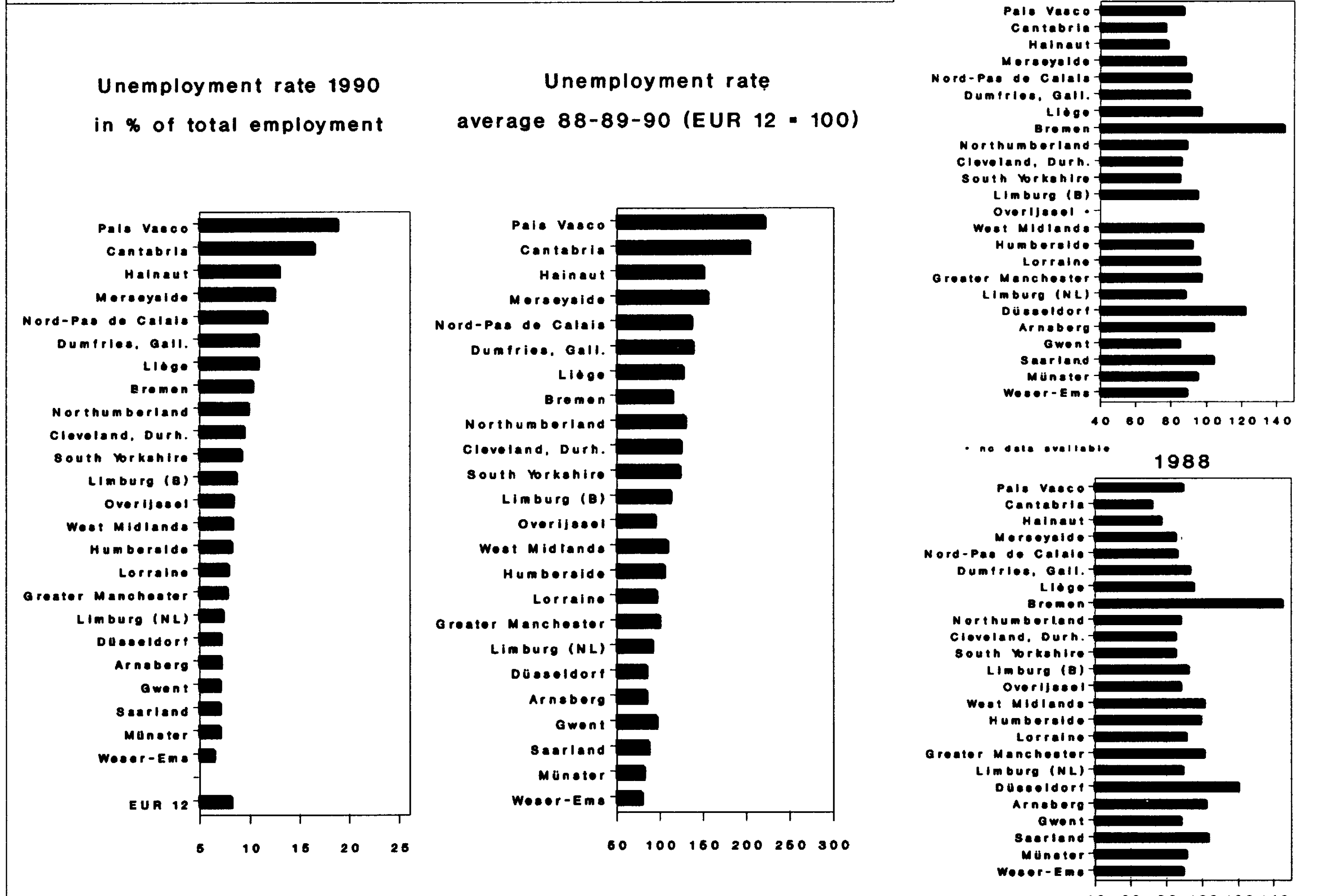
Figure 5 — **Unemployment and productivity in selected Objective 2 regions**



1 Estimated by IFO Institute.
2 Dumfries, Galloway, Strathclyde.

Source: Commission of the EC, 1991.

Figure 6 — **Objective 2 regions: profiles**



Source: Commission of the EC, 1991.

In many Objective 2 regions total employment in the industrial sector declined from 1979 to 1987, sometimes more sharply (Hainaut, Nord-Pas-de Calais, Basque country), sometimes less sharply (Weser-Ems), while in other regions (Limburg) it even increased (see Figures 7 and 8).

This heterogeneity, already evident from this three-sector analysis, means that economic policy recommendations and strategies can be developed only on a case-by-case basis.

2.2.3. Infrastructure and quality of location

27. Many researchers argue that 'locational attractiveness' is the key factor, the factor which determines whether a region is capable of attracting investors (Molle, 1989), i.e. able to compete as a location in the Community's internal market (Sauberzweig, 1990; Nijkamp, 1989).

Infrastructure and quality of location, used synonymously in the following, are fundamental requirements for economic activity based on a division of labour and thus reflect a region's economic strength. Infrastructure is a priori a completely open concept, although the factors associated with it are interpreted far more broadly in theory than in general usage (Nerb/Reuter, 1991).

28. The aim in the following sections will be to determine what shortcomings and advantages the problem regions studied have in terms of infrastructure and to identify regions within the various groups whose profile tends on the whole to be better or worse than the average.

The most important source of information and data is an IFO survey carried out in 1989 for the Commission in over 50 problem regions and, for purposes of comparison, nine prosperous regions of the Community with the object of identifying the determinants of regional competitiveness and bringing to light existing shortcomings in the various groups of regions (see Nam/Nerb/Russ, 1990).

29. The various groups of regions are compared on this basis in Figures 9 and 10. Despite considerable heterogeneity within this cluster, it is evident even at this stage that, on balance, the findings on the Objective 1 regions are favourable in such classical areas of infrastructure as transport and modern means of communication and as regards such strictly economic aspects of infrastructure as proximity to customers, proximity to suppliers and the proximity of services to production centres (for the procedure see Box 2). On the other hand, most aspects of human capital infrastructure (schools, research) and 'soft' infrastructure (leisure, culture) are found to be generally unfavourable in the Objective 1 regions. It must be emphasized in the case of these interpretations that companies' assessments of the relative significance and importance of the various infrastructure factors are roughly the same. Only the availability of skilled workers is rated significantly higher than the other factors.

If the relative advantages and disadvantages of locations in the Objective 1 regions are compared with those of the Community's economic centres (see Figure 9: relative position) — an approach which may be very helpful in clarifying what persuades a firm to invest in these Objective 1 regions or dissuades it from so doing — it becomes clear that in virtually no area of infrastructure do the Community's structurally weak regions enjoy a comparative advantage over the control regions as locations.

Box 2 — Explanation of the methods used in Figures 9 to 12 to analyse infrastructure

The analyses are based on the findings of an IFO survey (Nam, Nerb and Russ, 1990) carried out in 1989.

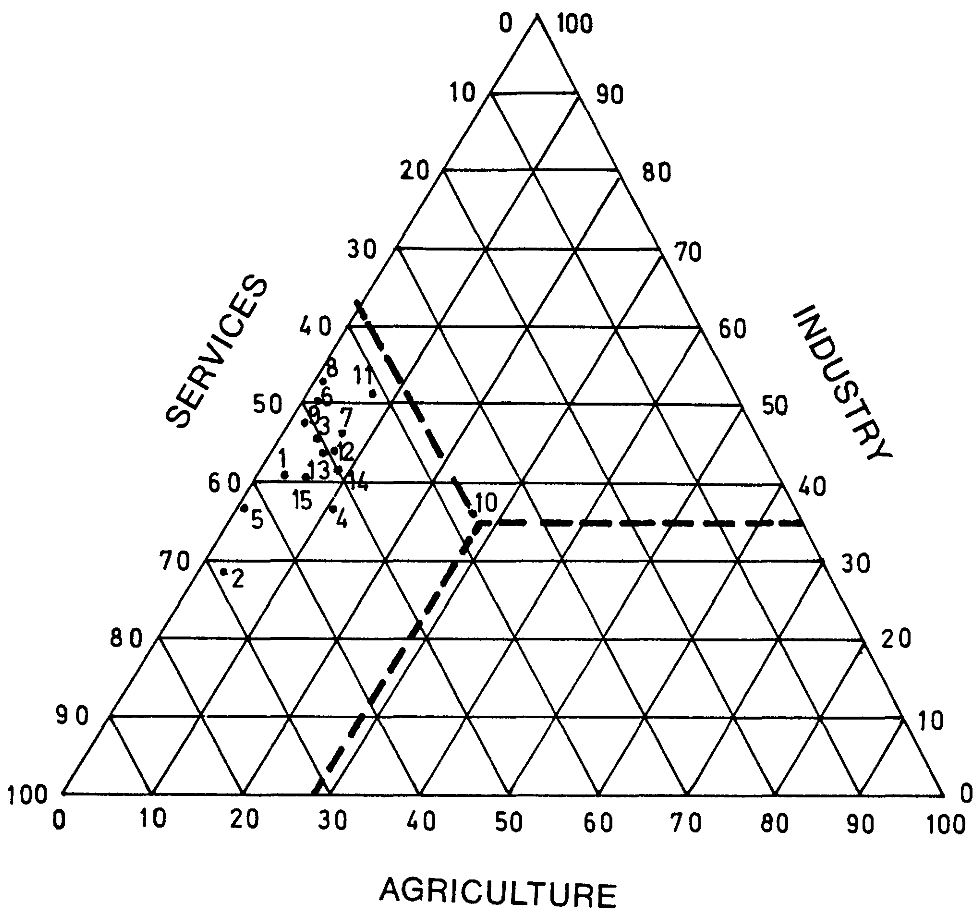
Firms in over 50 regions of the Community (see below) were asked, for example, to assess the effect of specifically regional factors on their competitiveness. The findings are balances in each case, i.e. the difference between positive and negative reports. Given the weighting used (very positive +2, positive +1, no effect/irrelevant 0, negative −1, very negative −2), the balances may vary between + and − 200. The findings in the various regions are shown in Figures 9 and 10 (absolute position) and in Figures 11 and 12.

The relevant locational advantages and disadvantages (Figures 9 and 10, relative position) indicate the differences from comparable regions. Example: the factor 'transport network' was given a balance value of +17 in the lagging regions and one of +66 in the control regions. For the lagging regions the result for this factor is a difference of −49, indicating a relative locational disadvantage.

The control regions were selected economically prosperous Community areas, comprising Oberbayern, Stuttgart (D), Île-de-France, Rhône-Alpes (F), Lombardy (I), Belgium and the Netherlands without their respective problem regions, Cheshire (UK) and Madrid (E).

The Objective 1 and Objective 2 regions investigated are listed in Figures 11 and 12.

Figure 7 — **Distribution of employment by sector in selected Objective 2 regions — 1979, in %**

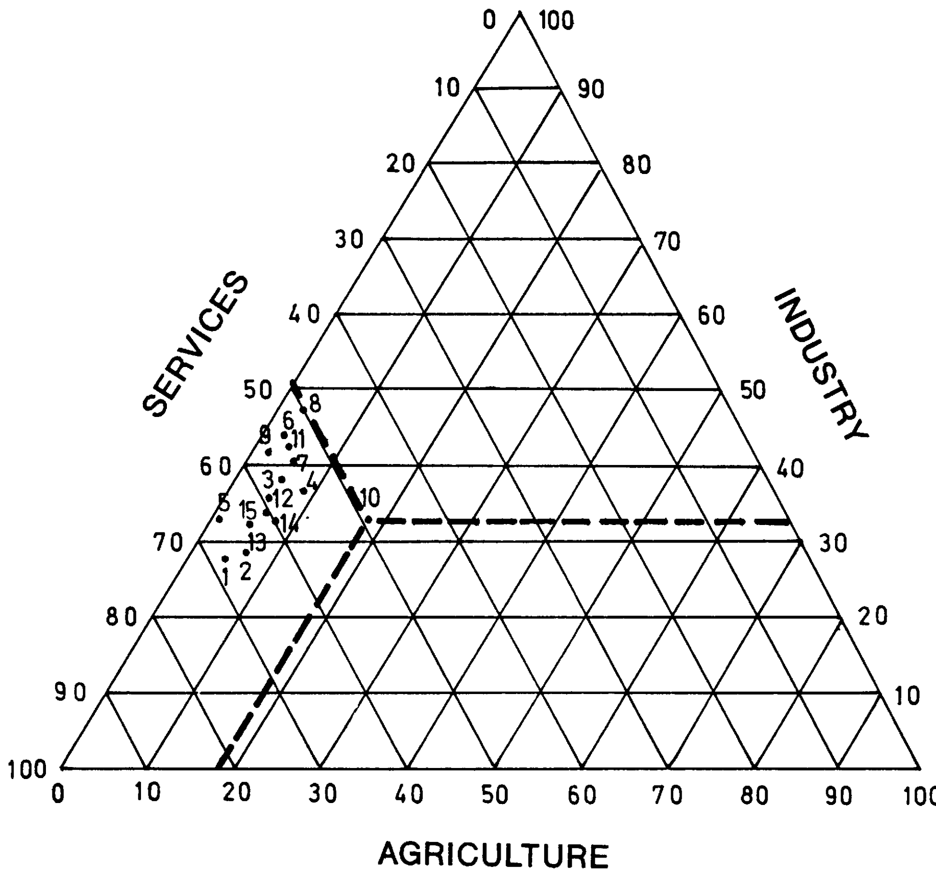


	Agriculture	Industry	Services
(1) Hainaut	3,3	41,3	55,4
(2) Liège	2,5	39,0	58,5
(3) Limburg (B)	3,8	35,6	50,6
(4) Weser-Ems	10,9	37,5	51,6
(5) Bremen	0,9	36,5	62,6
(6) Düsseldorf	1,7	50,2	48,1
(7) Münster	6,2	46,8	47,0
(8) Arnsberg	2,0	52,2	45,8
(9) Saarland	1,8	48,2	50,0
(10) Cantabria	28,1	35,0	36,9
(11) Pais Vasco	7,4	51,9	40,7
(12) Nord-Pas de Calais	4,2	46,6	49,2
(13) Lorraine	5,6	43,9	50,5
(14) Overijssel	8,5	41,5	50,0
(15) Limburg (NL)	5,4	41,3	53,3

ifo

Source: Eurostat, 1983 and 1987. Data for Spanish regions: Banco de Bilbao, 1987.

Figure 8 — **Distribution of employment by sector in selected Objective 2 regions — 1987, in %**



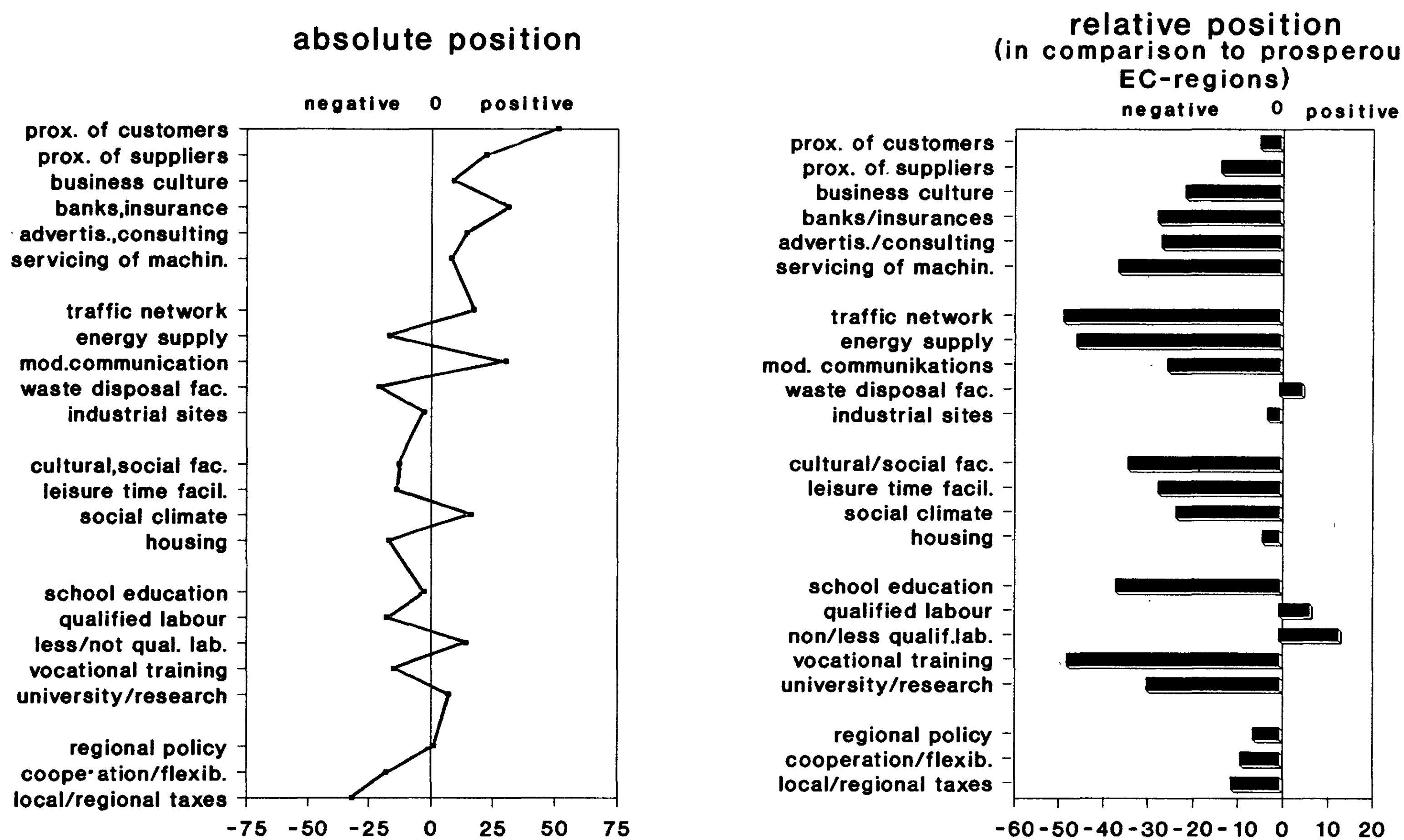
no data available for UK- regions

	Agriculture	Industry	Services
(1) Hainaut	2,9	28,5	68,5
(2) Liège	3,2	29,8	67,0
(3) Limburg (B)	3,2	39,2	57,6
(4) Weser-Ems	9,7	34,8	55,4
(5) Bremen	0,3	32,6	67,2
(6) Düsseldorf	1,7	43,6	54,8
(7) Münster	5,4	40,4	54,2
(8) Arnsberg	2,1	47,8	50,1
(9) Saarland	1,9	41,6	56,5
(10) Cantabria	18,4	31,9	49,7
(11) Pais Vasco	4,4	41,6	54,0
(12) Nord-Pas de Calais	4,3	36,0	59,7
(13) Lorraine	4,7	34,4	60,9
(14) Overijssel	6,1	33,2	60,7
(15) Limburg (NL)	4,5	32,5	63,1

ifo

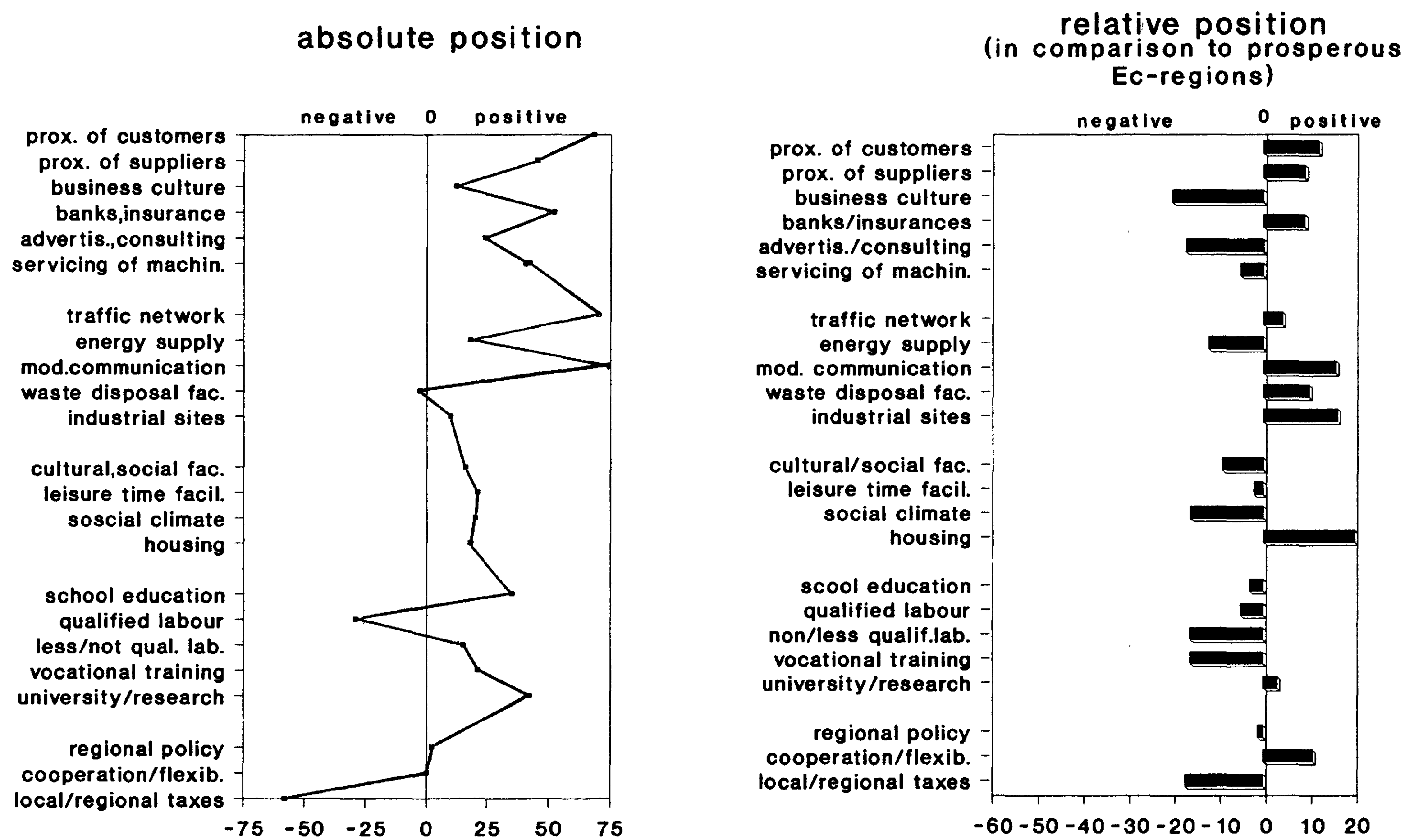
Source: Commission of the EC, 1991.

Figure 9 — **Infrastructure endowment in the Objective 1 regions — companies' assessment** [1]



[1] For methodological explanations, see Box 2.

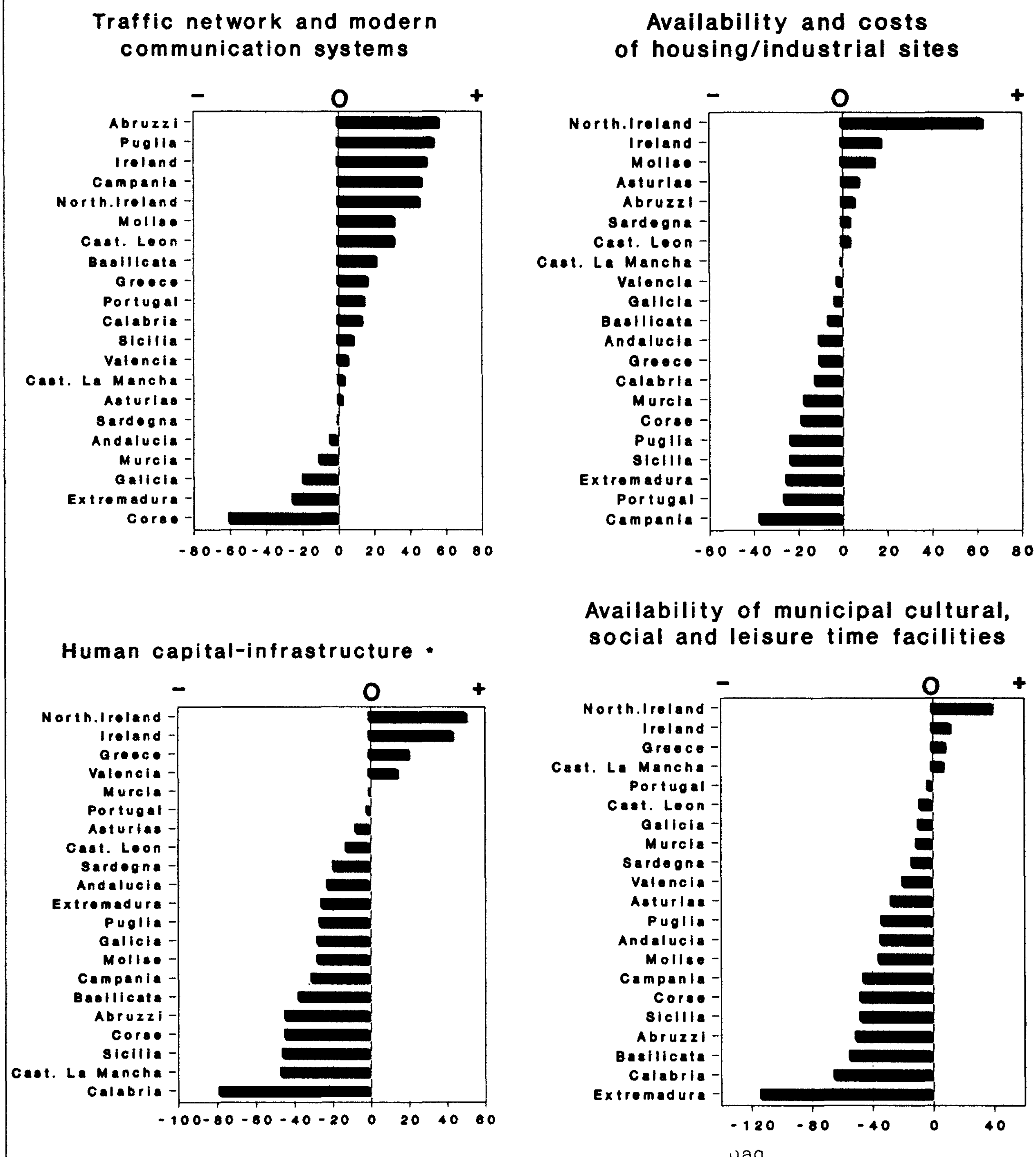
Figure 10 — **Infrastructure endowment in selected Objective 2 regions — companies' assessment** [1]



ifo

[1] For methodological explanations, see Box 2.

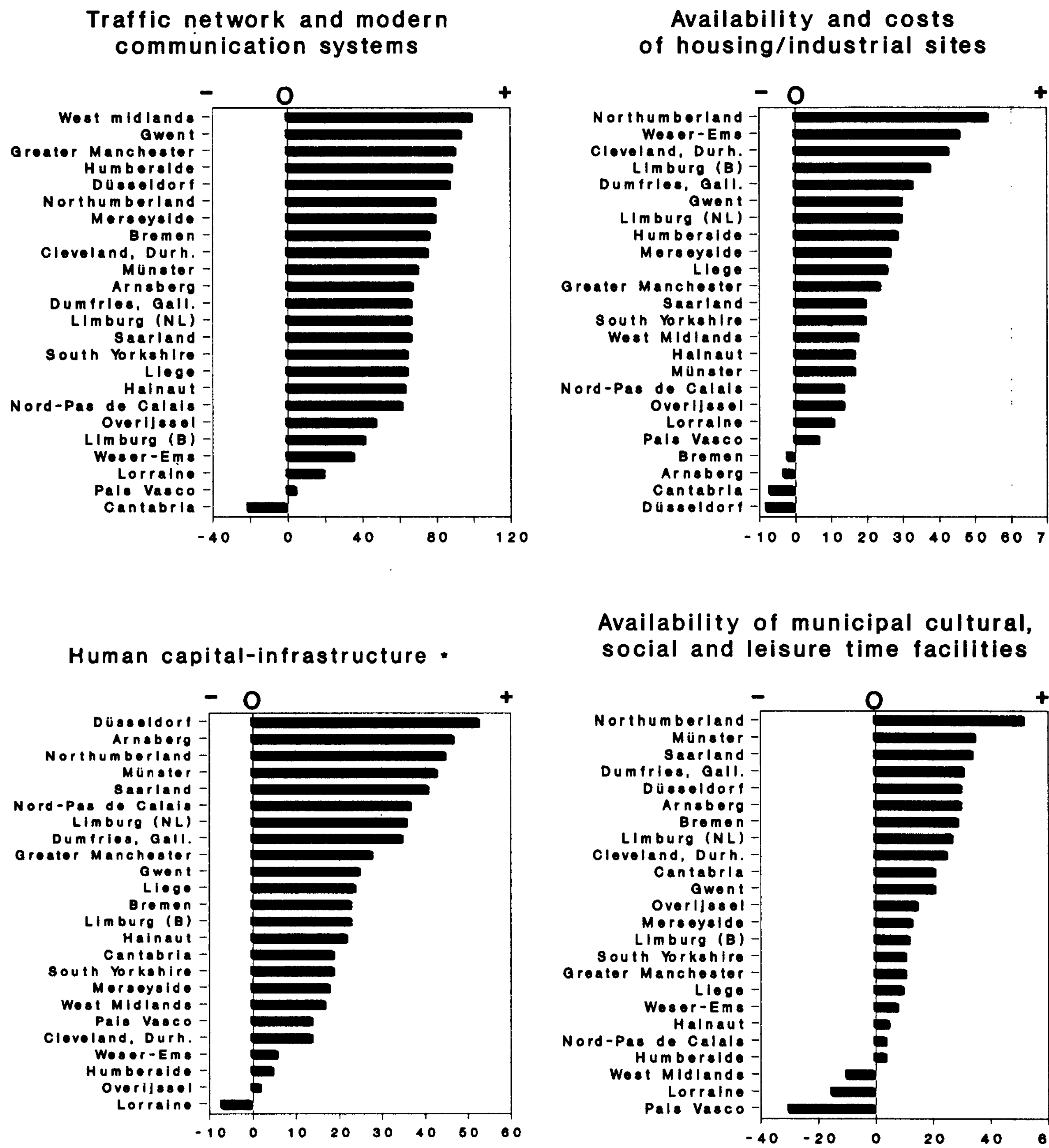
Figure 11 — **Infrastructure endowment in the Objective 1 regions — companies' assessment of the quality of regional infrastructure important for their firms' competitiveness** [1]



ifo

[1] For methodological explanations, see Box 2.

Figure 12 — **Infrastructure endowment in selected Objective 2 regions — companies' assessment of the quality of regional infrastructure important for their firms' competitiveness** [1]



ifo

[1] For methodological explanations, see Box 2.

30. Given the considerable heterogeneity within the groups of regions compared and as the real aim of this chapter is to identify the relatively better and relatively worse regions within the various groups, the regions in each group will now be considered in greater depth.

For the sake of clarity, the various infrastructure factors have been combined to form objectively similar groups. Thus grouped, the factors have been included with the same weighting.

Figures 11 and 12 show the infrastructure profiles in the various regions.

31. The findings can be summarized as follows: on balance, the assessment of transport infrastructure and modern means of communication in the Objective 1 regions is largely positive. Only employers in Corsica, Extremadura, Galicia, Murcia, Andalusia and Sardinia gave these factors a negative rating.

A uniform trend cannot be identified in the case of industrial/commercial sites. The best ratings here were given by the companies in Northern Ireland and Ireland, the situation being rated worst in Portugal and Campania. The rating given by Greek companies was generally positive, although it should be noted that most of the Greek employers questioned are located in the Athens and Saloniki regions. The same is true of Portugal, where most of the employers questioned are located in the Lisbon region. The lowest ratings of human capital infrastructure were given by the companies in Calabria, while 'soft' infrastructure factors were rated lowest in Extremadura.

Ireland and Northern Ireland are also the Objective 1 regions where local companies rated human capital and soft locational factors very high, particulary in comparison with the other Objective 1 regions, where these factors were rated low in most cases.

A completely different picture from that painted of the situation in the Objective 1 regions is obtained when the same procedure is used to investigate the Objective 2 regions. All the relevant areas of infrastructure are rated positively in most regions. This confirms the initial statement that there is less need for infrastructure activities in the old industrial regions.[1] There are, however, exceptions, like the Spanish Objective 2 regions, which still have significant, objectively understandable shortcomings in the area of transport links. In the German Objective 2 regions, compared with the other regions in this group, the most serious constraint is the availability of sites.

In general, it must be said that Objective 2 regions are, of course, far smaller in area than most Objective 1 regions, the higher degree of urbanization of the regions considered here thus making a different assessment necessary. Nor is the assignment of regions to the Objective 2 category always plausible, i.e. the economic regions in this category are far more heterogeneous than the groups of Objective 1 regions.

32. A comparison of the Objective 2 regions affected by structural problems typical of old industrial areas with the control regions (Figure 10, relative position) reveals few specific advantages or disadvantages in infrastructure terms. Where infrastructure endowment is concerned, the old industrial Objective 2 regions, unlike the Objective 1 regions, are thus quite capable of holding their own with the regions whose economic success has been above-average (control regions). The conclusion to be drawn for economic policy is that, while a certain level of infrastructure is necessary, it is not enough on its own to ensure economic development. The classical infrastructure requirements (e.g. transport links) appear to be satisfied in many areas of the problem regions studied, to a greater extent at least than the whole range of human capital infrastructure. In the Objective 1 regions, on the other hand, serious shortcomings are still to be found as a rule over the whole range of infrastructure endowment.

2.2.4. Foreign direct investment

33. Capital injections into structurally weak regions from outside are considered to be crucial determinants of development (Molle, 1989; Reuter, 1991): the lower the level of development, the more important they become. The significance of this foreign investment is deemed to lie not only in the injection of investment capital where the level of capital endowment in structurally weak regions is low, important though such investment is, but primarily in the transfer of technological and management know-how associated with it.

The poorer Member States of the Community have long been net capital importers (see Table 5).

[1] Like all the statements made in this context, this is true only of the current needs of companies in the region. This is not to say that individual aspects of infrastructure are not in need of improvement and expansion, particularly where the aim is to guide a region's economic development by means of certain infrastructure activities.

Table 5 — **Direct investment flows (in 10^9 ECU) between the Member States of the European Community, 1975-83**

From/to	D	F	I	NL	B/L	UK	DK	IRL	E	P	GR	EC 12	Other	Total
Germany	—	1.8	0.6	0.3	1.8	1.1	0.2	0.1	0.7	0.1	0.1	6.8	16.9	23.7
France	0.9	—	1.0	0.4	0.9	0.7	0.0	0.0	1.3	0.2	0.0	5.4	11.0	16.4
Italy	0.1	0.5	—	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.9	3.7	4.6
Netherlands	0.3	1.3	0.2	—	1.1	3.4	0.0	0.5	0.4	0.0	0.0	7.2	13.6	20.8
Belgium/ Luxembourg	0.6	1.0	0.5	0.4	—	0.2	0.0	0.0	0.3	0.0	0.0	3.0	2.3	5.3
United Kingdom	1.4	1.4	0.5	1.2	0.6	—	0.2	0.7	0.5	0.1	0.1	6.7	28.5	35.2
Denmark	0.2	0.0	0.0	0.0	0.0	0.2	—	0.0	0.0	0.0	0.0	0.4	0.7	1.1
Ireland	0.0	0.0	0.0	0.0	0.0	0.1	0.0	—	0.0	0.0	0.0	0.1	0.1	0.2
Spain	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	—	0.1	0.0	0.2	1.0	1.2
Portugal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	—	0.0	0.0	0.0	0.0
Greece	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	—	0.0	0.0	0.0
EC 12	3.5	6.1	2.8	2.3	4.5	5.7	0.4	1.3	3.3	0.5	0.3	30.7	77.8	108.5
Other	5.2	5.8	3.0	6.8	4.0	16.2	0.5	2.4	3.4	0.2	0.9	48.4		
Total	8.7	11.9	5.8	9.1	8.5	21.9	0.9	3.7	6.7	0.7	1.2	79.1		

Source: Molle, 1989.

Table 6 — **Relative importance and export performance of foreign-owned and indigenous industry in Ireland**

	% of manufacturing employment	% of manufacturing gross output	% of manufacturing exports	Exports as % of gross output
Foreign	40.8	50.0	75.8	83.2
Indigenous	59.2	50.0	24.2	26.6
Total	100	100	1 000	54.9

Source: Commission of the EC, 1990a, 1990, p. 251.

34. In recent years the trend in the flow of foreign capital particularly into Portugal and Spain (Figure 13) has continued to be highly dynamic. In Portugal the injection of foreign capital tripled from 1984 to 1988, while in Spain foreign investment in industry from 1986 to 1988 is estimated to have accounted for about 35% of the total, equivalent to between 1.4 and 1.7% of Spain's GDP. In Portugal foreign investment accounts for some 4 to 5% of total investment. Japanese, Scandinavian and US companies in particular are stepping up their investment in the Community.

35. The situation is somewhat different in Ireland, the proportion of companies run by foreigners in manufacturing industry having long been very high (see Table 6).

This gives rise to completely different problem situations as regards the future importance of foreign investment for the development of the economic area, an aspect discussed in greater detail elsewhere.

36. Italy's Mezzogiorno again differs fundamentally from Portugal and Spain as regards the actual significance of and trend in foreign direct investment. Despite the rather limited importance of production units controlled by foreigners, the trend has been downward in both relative and absolute terms. This trend is further exacerbated by the fact that northern and central Italian companies are similarly investing in other regions or even withdrawing from the South of Italy (see Section 3.2, case study on Calabria).

37. The main motive for foreign investment is market potential (Molle, 1989). One of the essential requirements is a low level of restrictions on market access. As a result of integration under the Europe '92 programme, the associated liberalization of capital movements and the relaxation of the statutory requirements to be satisfied by foreign investors both factors are more favourable in Spain and Portugal than in Ireland, Greece and the Mezzogiorno, all 'old' Member States or regions. In the case of investment by third countries in the Community a further motive is undoubtedly the desire to be present in 'Fortress' Europe (see IFO Economic Survey International, 1/91).

A factor that still has to be considered is whether the trend in foreign investment, which at first sight[1] is positive, taking the Member States as a whole, remains positive when subnational and sectoral distribution is taken into account.

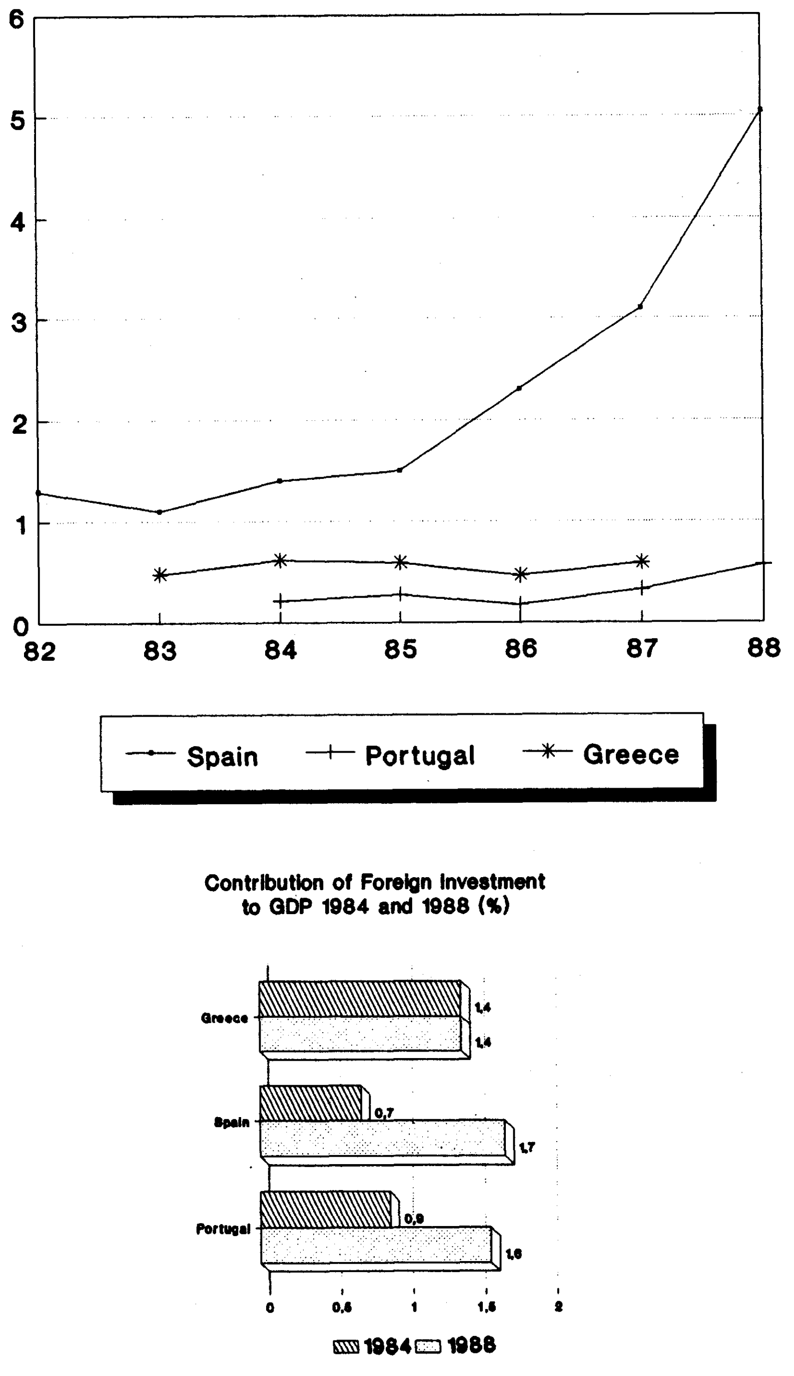
This aspect will be considered in greater depth in the case studies. At this juncture it can be said that, where regionalized data on flows of direct investment are available, strong concentrations are clearly discernible. Thus between 60 and 70% of direct investment in Spain went to Catalonia and Madrid, the Objective 1 regions receiving well below the average.

The patterns of sectoral allocation also show that the largest flows of foreign capital go to the services sector, the proportion received by industry being well below the average.

This underlines the above statement that agglomeration or national economic centres attract most foreign investment.

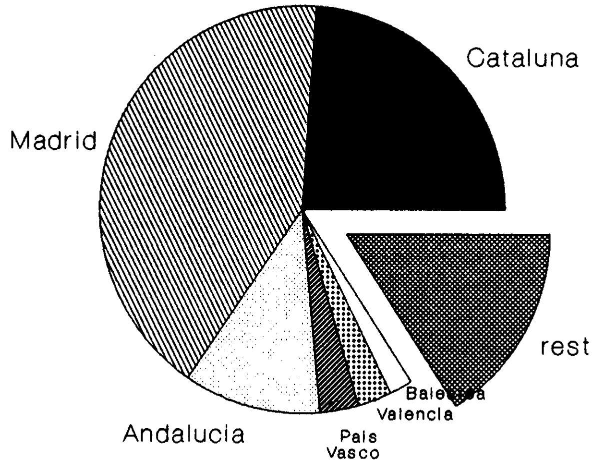
[1] The increase in foreign investment cannot in itself be equated with stimulation of the regional economic structure.

Figure 13 — **Foreign direct investment in southern EC countries (billion ECU)**

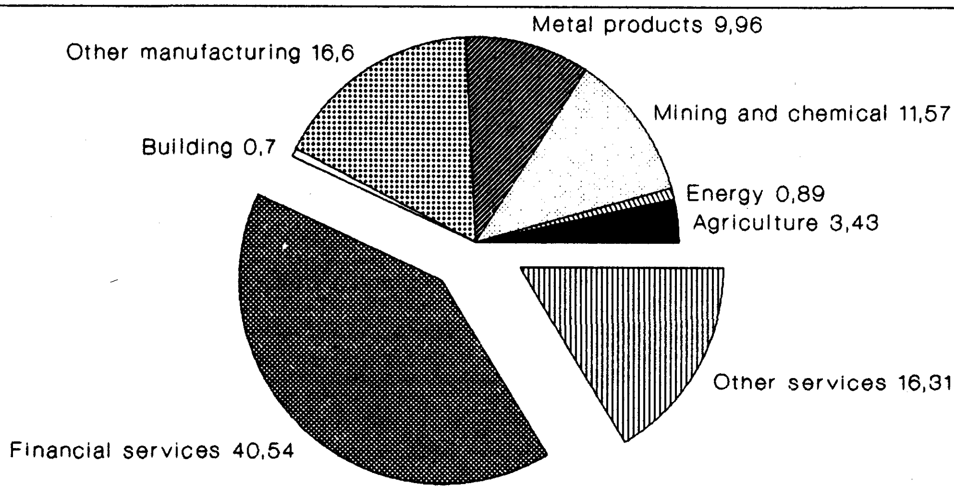


Source: Commission of the EC, 1990a.

Figure 14 — Foreign direct investment in Spain by region — 1988/89 (%)



Foreign direct investment in Spain by branch — 1988/89 (%)



data for 1989 from January to November

Note: Data for 1989 from January to November.
Source: Ministry of Industry, Commerce and Energy (ICE).

3. Case studies in the Objective 1 regions

3.1. Preliminary remarks

38. Since the structural Funds were reformed, the Objective 1 regions have been the whole territories of Portugal, Ireland, Greece and Northern Ireland (UK), Andalusia, Asturias, Galicia, Castile-Leon, Castile-La Mancha, Ceuta and Melilla, Valencia, Murcia, Extremadura and the Canary Islands (E), the Abruzzi, Basilicata, Campania, Calabria, Molise, Apulia, Sardinia and Sicily (I), Corsica and the overseas departments of Guadeloupe, Guyana, Martinique and Réunion (F).

In all, 21.2% of the Community's population live in Objective 1 regions. According to the allocation criterion, regions with a gross domestic product per capita (at purchasing power parities) of less than 75% of the Community average (from 1984 to 1986) or something very close to this figure are eligible for assistance. Special arrangements apply for Northern Ireland and the French overseas departments.

The impact of Europe '92 on two regions in this group, Calabria and Ireland, is considered in the following sections.

While the various findings and profiles will not be discussed in detail at this juncture, the previous selection procedures have shown that, although Ireland is undoubtedly a region where patterns of development are not in some respects typical of Objective 1 regions and can by no means always be taken as examples, it can on the whole be counted among the more positive cases in the group of Objective 1 regions.

Calabria, on the other hand, is without doubt one of the Objective 1 regions whose economies have performed relatively badly in recent years.

3.2. Calabria and Ireland

3.2.1. Calabria

39. Calabria is an Italian Objective 1 region which not only has a virtual tradition of lagging behind the economically prosperous regions of Italy and the Community in socioeconomic terms, but whose performance and development have also been comparatively poor within the Mezzogiorno region as a whole.

As an employer, Calabria's agricultural sector is of above-average size even in comparison with other Mezzogiorno regions. The secondary sector accounts for 19.3% of all employees and 10.3% of regional output. With a 54% share of the labour force and a 69.3% share of value-added, the services sector has been the most important and, in the past, most dynamic sector of the region's economy, although services to consumers dominate. On the whole, the structure and importance of the services sector in Calabria, as in many other Objective 1 regions, cannot be compared to that of the Central European economic centres. Services to producers are well below the average, the bulk of the activities in this sector being undertaken by very small traders for whom there is no other employment.

40. The region's labour market is determined by a generally fast-growing population with a correspondingly fast-growing potential labour force, although migration from Calabria from 1986 to 1989 was higher than from other Objective 1 regions. In recent years the unemployment rate has risen continuously, reaching 22.6% in 1990 (Commission of the European Communities, 1991).

The employment figures from 1980 to 1989 reveal an absolute increase by some 45 000, the level of employment falling to 103 000 (−29 000) in industry and to 122 000 (−26 000) in agriculture, forestry and fishing, while the number of jobs in the services sector rose by 100 000 to 384 000.

41. Industrial productivity in all sectors is far lower than in the central and northern Italian regions. In Calabria's manufacturing industry the level of productivity in terms of gross value-added per industrial employee was 68.4 index points (northern/central Italy = 100), compared with 73.1 in 1980. Particularly significant relative losses of productivity occurred in the food and semi-luxuries industry (1980: 93.0, 1987: 73.1).

42. The Calabrian economy's external linkages are limited and generally on the decline. Experts estimate that its export ratio in 1988/89 was roughly equivalent to the Mezzogiorno's (about 9%). The leading exporting sectors are the primary industry and agriculture.

Even in manufacturing industry small companies dominate, most being very small firms run by their owners. Only 11.8% of industrial workers are employed by companies with 500 to 999 employees, i.e. three out of a total of 573 companies. About 54% of industrial employees work for firms with 10 to 49 employees

(Svimez, 1990). The 'large' industrial employers, a total of 24 companies with more than 100 employees, are mostly subsidiaries of corporations outside the region or are owned by firms outside the South of Italy. Only four companies are owned by southern Italian firms or corporations.

43. In recent years the region has been largely unsuccessful in attracting outsiders. As in the Mezzogiorno as a whole, the interest of foreign and northern and central Italian investors is waning (Reuter, 1991).

44. Given its endogenous economic structures and the absence of exogenous modernization initiatives, the region itself has little chance of benefiting from Europe '92. Regional economic experts therefore tend to rate Calabria's prospects low. In all interviews with regional policy experts and economic pressure groups the dominant basic view was that, as the region lacks an industrial tradition, there are strict limits to possible development strategies in this sector.

There are currently no signs that the emerging trend towards the growing marginalization of the region might change in the medium term.

45. According to experts, the various deregulation measures associated with Europe '92 are unlikely to result in any improvements in the region's relative position. The fact, often quoted in this context, that the cost of industrial credit in the South of Italy is some 2% higher than the interest-rate level in northern and central Italy is attributed to the generally higher risks and smaller volume of business in the South. Both these factors will continue to make credit more expensive in the South of Italy in the future. However, Europe '92 is expected to reduce the cost of credit and, in particular, improve all banking services, even in Calabria.

46. The possibility of costs being reduced by the liberalization of the road transport sector is viewed with scepticism. The dominant view is that deregulation in this sector will not reduce prices in regional transport because regional transport monopolies will continue to have little competition from foreign companies in the future: the routes are simply too unattractive. Past experience also shows that, even when foreign companies compete on the main North-South routes, the competition that emerges in the medium term concerns quality and service rather than prices.

47. As in many other regions and municipalities, the liberalization of public contracts is not expected to have the expected effect in Calabria. This would also obviate the attendant risks, especially for small and medium-sized firms in the region, which have hitherto benefited from the award of contracts.

48. The general view is that, although the package of Europe '92 measures will not in itself weaken the region's competitiveness and economic structure, the region's chances of benefiting from Europe '92 are extremely limited, given its current structures, and that this is likely, in the final analysis, to result in a worsening of its position relative to that of the Community's central economic regions.

3.2.2. Ireland

49. The whole of Ireland is classified as a lagging region by the Community. 'GNP (gross national product) per capita, measured in current prices and PPS (purchasing power standards),[1] in 1987 was 58% of the average for the Community (see National Development Plan, 1989-93, p. 11). This suggests the comparatively low productivity in the Irish economy as a whole, although in some sectors (particularly high-tech) productivity is as high as in other European countries.

Unemployment is some 7 percentage points higher than that of the EC average. The difference has been hardly reduced in recent years. In addition, the pace of outward migration has been accelerating in recent years, indicating a serious deficit in employment opportunities in the country. The implementation of the single market, which will also guarantee the freedom of people's movement across borders, is likely to increase Irish emigration, especially of professionals, to the UK and continental Europe.

50. Ireland's geographical location on the periphery of the single market causes the most serious problems, since it has been anticipated that 1992 will lead to industrial development in the central areas of Europe rather than in those regions on its geographical rim (see Nam/Reuter/Russ, 1990). The country suffers not only from major transport cost disadvantages but also from delays at points of exit and entry, which for example hinder 'just-in-time' delivery of manufacturing inputs.

51. Ireland has a quasi-dual structure of industry: the traditional indigenous industries organized on a

[1] Due to Ireland's high external debt, a significant amount of interest is paid to foreigners. Thus GNP is about 15% lower than GDP (1990).

relatively small scale such as food, textiles, clothing, etc. on the one hand and the modern foreign-owned companies with remarkable exports, such as electronics, on the other hand.[1]

One can easily presume that countries with an export-oriented open economy such as Ireland will gain more in the future when the extra costs imposed by customs checks are reduced. Probably, the modern foreign-owned industry sectors will see the initial effects of the removal of existing barriers as positive. However, it is difficult to predict how long they can be competitive, since R&D and innovation activities are mainly carried out by headquarters. In addition, the future development of foreign investment to Ireland is unlikely to be optimistic, since the new Member States (Greece, Spain and Portugal) and East European countries also attract foreign investors with their lower labour costs and large markets.

On the other hand, possible threats arise from the technical change in metal articles, mechanical engineering and automotive components sectors. The textile industry will also be threatened by the pressure to restructure (partly due to technical changes), which again causes high capital costs.

52. The creation of the single market for construction products and the opening up of public procurement to increased outside competition will have significant implications for the construction sector in Ireland. It seems that the Irish building materials sector is relatively open compared to that in other European countries (see McCarthy Ltd, 1989). However, differences in language and in construction systems seem to hinder continuously the exploitation of opportunities in continental Europe, although all existing barriers will be removed. Generally speaking, large or specialized firms, particularly if they are strongly internationally organized, will have better access to the enlarged European market. Unfortunately, one finds only a small number of such companies in Ireland.

53. One of the crucial factors necessary for the successful operation of the single European market is the ability of goods and persons to move freely, efficiently and at low cost between the 12 Member States of the EC. The Commission has therefore proposed a series of priority measures for transport.

From Ireland's point of view, the liberalization and other relevant measures already implemented in air transport such as the creation of a more flexible system of air fare zones, promotion by hub-to-region and interregional services, have already provided and will provide benefits to regional and national airports. Lower air fares and new services have contributed to the growth of tourism and air travel in general. However, current development towards globalization in the airline industry, involving transnational alliances and cross-investments which seem to be contrary to EC competition policy, could mean either threats or opportunities for Aer Lingus, depending on its strategy (see Crowley, 1990).

54. The quality of labour and its availability determine the locational advantages and competitiveness of the region (see Nam, 1990). In a time of rapid technological progress, the role of specialized or highly trained labour as a location factor becomes more important. More immediately, the scale of commitment to training, both in the educational system and industry itself, has a considerable bearing on the supply of specific skills.

The quality of Irish labour has been improved in recent years. The Irish education system has traditionally provided a high level of general education. Yet the problem of training and retraining of employed persons remains unsolved. In general, the majority of indigenous SMEs seem not to be active in training, probably due to lack of necessary resources for staff to acquire skills and qualifications. Consequently, Irish business seems to be poorly prepared to meet the challenges of European integration in 1992.

55. The most immediate and obvious consequence of the harmonization of indirect taxation could lie in the tax revenue field (see National Economic and Social Council, 1989). The consequence would be especially severe for Ireland, for the country raises about 45% of its tax revenues through indirect taxation. (For example, Ireland has the highest standard VAT rate, and the highest excise duties for wine and beer.)

Under the arrangement of the indirect tax rates proposed by the Commission (see Commission of the European Communities, 1988), Ireland will experience significant revenue losses,[2] which will subsequently worsen the existing budgetary imbalances ('The national debt at the end of 1988 amounted to IRL 24.6 billion. At the equivalent of 133% of GNP, this is well in excess of the EC average of 60%', National Development Plan, 1989-93, p. 13).

[1] In the last few years, Ireland has been successful in attracting foreign investors through providing generous grants and tax incentives. Besides, availability of telecommunication systems and a well-developed financial market have contributed to the success.

[2] To a certain extent, the revenue losses will be compensated by the so-called 'built-in flexibility' effect caused by an increase in relative income (income effect) and consequently consumption. However, the compensation effect does not seem to be significant (see National Economic and Social Council, 1989, p. 367).

4. Case studies in the Objective 2 regions

4.1. Preliminary remarks

56. The Community's criteria for the provision of regional aid define Objective 2 regions as industrial areas of the Community whose development is declining and where unemployment is above average, the proportion of the labour force employed in industry is at least equivalent to the Community average and employment in industry is on the decline. The difficulty in comparing regions eligible for assistance by these criteria is that in many cases only parts of the NUTS II areas designated Objective 2 regions actually receive assistance.

For this study it has therefore been necessary to seek a definition such that the only areas and regions considered are those which as a whole come close to satisfying the Objective 2 criteria at NUTS II level.

For this reason roughly half of the Community's Objective 2 regions have not been considered.

4.2. Cantabria and Greater Manchester

4.2.1. Cantabria

57. Cantabria is not a typical Objective 2 region in some respects: industry accounts for a comparatively small proportion of employment (26.1%) and value-added (22.6%). Agriculture, forestry and fishing is at least as important a factor in the economy, although many of those employed in this sector work part-time. The emphasis is on livestock farming. The third significant factor in the economy is tourism, which plays a central role in the services sector (accounting for 51% of employment and 61.2% of value added).

58. The most important branch of industry is the food and semi-luxuries sector, one focal area being milk processing, another fish processing. The latter is dominated by small and medium-sized local firms, the markets for their products being relatively secure and unlikely to be threatened by the Europe of 1992.

In the milk processing sector, and above all in cheese production, there are still some high-quality products for which appropriate market niches could be explored. Past initiatives to this end have failed or have proved relatively inept because of the limited willingness of both farmers and processors to cooperate.

The structure of industry is otherwise dominated by traditional sectors of production (mining, basic chemicals). Unlike the shipbuilding industries in certain other European regions, Calabria's still has serious problems. However, its shipyards, which tend to specialize in repairs, now account for a relatively small proportion of the labour force.

Some of the region's major employers are to be found in the telecommunications sector and in the automobile components industry, most being subsidiaries of foreign corporations.

59. A specific problem posed by the structure of Cantabria's industry is that the leading industrial employers, even in the traditional sectors, are subsidiaries of large corporations. According to representatives of the regional economy and regional politics, this makes it difficult to develop cooperative restructuring strategies.

60. Although the infrastructure endowment in the human capital sphere (schools, further education, practical courses) is better here than in other Spanish regions, the proposal for the establishment of a technology park must therefore be viewed with scepticism.

Conditions in the region for the active guidance of the restructuring measures that need to be taken are comparatively unfavourable not least because the relevant industrial enterprises have pooled their internal R&D structures at other locations.

61. Unlike other old industrial regions, however, Cantabria has the advantage of being able to diversify into non-industrial activities at little cost. The region therefore has good prospects in the medium term. Success will depend, however, on massive infrastructure measures being taken in communications (above all roads and railways) and in environmental protection. Although the IFO surveys have shown that the classical infrastructure endowment is no longer the most urgent problem in many parts of the Community's problem regions — a statement repeatedly confirmed in discussions with local experts — the same certainly cannot be said of most other Spanish regions.

62. Cantabria's attractiveness to foreign investors since Spain's accession to the Community and since the easing of restrictions on investment in Spain as part of the Europe '92 project has hardly increased in recent years. The favourable position ascribed to Cantabria by the official statistics (Ministerio ICE, 1989) is largely due to holdings in existing companies, i.e. mere changes of ownership, not new investment projects.

63. The region's chances of benefiting from Europe '92 are rated low. Although the chambers of trade and parastatal development agencies are making a particular effort to help SMEs with highly aggressive export promotion measures, they are encountering not only pronounced individualistic and uncooperative structures at entrepreneurial level but also the problems associated with an insurmountable time-lag: given the reorientation that is particularly necessary in the case of small and medium-sized firms and the need to cope with new market conditions and new competition in 1992, the provision and dissemination of information will take some considerable time, and there is a danger that this will result in such firms lagging behind companies in more competitive regions.

64. It is not only in Cantabria that attempts by the employers' organizations and regional government to initiate interregional cooperation with a view to promoting technology transfer or developing joint strategies on all aspects relevant to entrepreneurial planning appear to be impeded by the fact that most potential partner regions face similar problems.

An alliance between 'strong' and 'weak' regions is often thwarted by the inability of the latter to contribute a great deal to such cooperation, making them uninteresting as partners.

4.2.2. Greater Manchester

65. Although Greater Manchester still belongs to the problem areas, the region can now be characterized as an intermediate area compared to regions such as Dumfries and Strathclyde for instance. Unemployment in Greater Manchester has been on a downward trend, although its rate is still relatively high (8.0% in December 1989). The city of Manchester is a fairly well established business service and financial centre. In general, the transport infrastructure is good.

66. According to a survey (see Coopers and Lybrand, 1989), there is a high level of awareness about 1992 among businessmen in Greater Manchester. However, a large share of companies have not taken any decisions on preparation for 1992. Small companies are more vague and unspecific than the bigger ones about what exactly they intend to do to prepare for 1992.

67. One of the main reasons for the differing economic growth of EC regions is due to their industry structure. Greater Manchester belongs to the traditional and heavy industry regions in the UK. Given the reliance of the region on such old industries like textiles, mechanical engineering, footwear and clothing, Greater Manchester appears most at risk of losing markets to other EC producers after the implementation of the single market (see also North of England Regional Consortium, 1989). Reduction in production costs and/or changes in employment structure resulting from the expanded European market and the removal of barriers are likely to be small in these industries.

The high technology, electronic goods and chemicals sectors appear to be the ones with the greatest potential to realize unexploited economies of scale. For food and beverages, it is difficult to predict what further economies of scale might be gained through expansion to serve the single market.

It is generally said that small and medium-sized enterprises (SMEs) will especially suffer after 1992 because many of them are ill prepared for the significant changes that will occur. In addition, they have only limited horizons not only where their technology but also where their markets are concerned. Recently little innovation has been carried out by SMEs and there are very limited technological opportunities that may be open to them. Their main strength is that they meet local needs by virtue of physical proximity. However, reduced transport costs and better market accessibility expected in the future will make them vulnerable to other competitors in the EC. Besides, many SMEs will face the threat of takeover as big firms seek to strengthen their position in the EC market. Apart from the situation above applicable to SMEs in the EC in general, growing and expanding SMEs in Greater Manchester complain that local authorities mainly help businesses that are struggling to survive. Many such growing companies are seriously considering the plan to change their location to other North-West areas, where better financial incentives are provided. For future technological development and innovation, the SMEs see a closer cooperation with local higher educational institutions as necessary.

68. The liberalization of public sector procurement contained in the Europe '92 programme is an important issue in the process of creating the single market. Procurement in three areas of public purchasing will be affected: supply contracts including telecommunications, equipment for government use, etc., work contracts including construction and service contracts such as street cleaning, maintenance and repair of vehicles and professional services like architecture and engineering, software development, economic development consultancy and research, etc. (see Centre for Local Economic Strategies, 1990a). Among them, changes to procedures of service contracts are likely to have the earliest and most direct impact on local authority practice and regional economy.

However, past 'experience in public purchasing under the regulations which have been enforced since the UK became a member of the Community does not suggest that large numbers of local authority contracts will immediately be won by continental suppliers or contractors, although some small gradual change may be expected' (Centre for Local Economic Strategies, 1990, p. 5). The case for the region of Greater Manchester is not an exception. The Manchester City Council, for example, regrets that its purchase of goods and services must be put out to competitive tender through an invitation to private sector companies in the EC to bid for contracts, because this process will not allow it to carry out local policy of creating jobs and sustaining long-term employment efficiently (Manchester City Council, 1991).

69. Those in favour of the free market argue that deregulation would enhance competitiveness and consequently lead to reduced fares. However, this is proved not to be the case in Greater Manchester. The current experience of bus deregulation in this region shows that new companies simply followed the public Passenger and Transport Executive (PTE) fare system and fares have steadily increased. Competition has taken the form of new routes rather than cheaper fares. In addition, integration of public transport services has been more difficult to implement since deregulation. Bus operators are less inclined to cooperate with rail services which are considered as competitors (see Centre for Employment Research, 1990).

70. The Channel Tunnel, which will be opened in 1993, can be seen as a major opportunity for the regions in the North, including Greater Manchester, to expand their trade and to promote inward tourism. However, it is urgently required for those Northern regions to have fast and efficient freight and passenger services to the Channel Tunnel. If the necessary infrastructure is not in place by 1993, the regions in the North will find themselves increasingly disadvantaged compared to the South (see North of England Regional Consortium, 1989a).

71. The regions in the northern part of England, including Greater Manchester, are strongly dependent upon foreign investment. Foreign (particularly Japanese, American and also German) companies are moving into the region to use it as a gateway to Europe in readiness for 1992, and because it additionally offers the best combination of lower labour costs and suitable labour skills for their manufacturing purposes. However, Scotland and Wales, using extensive government grants and development agencies, have been more successful, especially in electronics, high-tech and consumer durables manufacturing.

5. Case studies in the Objective 5b regions

5.1. Preliminary remarks

72. The many Objective 5b regions eligible for assistance under the regional directives (high proportion of people employed in agriculture, low agricultural incomes, low level of socioeconomic development) and the fact that the regions can no longer be distinguished statistically made a purely qualitative selection of examples necessary.

As recent events in Eastern Europe have moved the Bavarian Objective 5b region from its former peripheral position to the centre of activities, it will be taken as a positive example in this comparison. The question was whether this change has already had an impact on economic development and activity. During the on-the-spot enquiries it was felt necessary to shift the emphasis from Europe '92 to the conditions and options for the regional economy in a newly defined division of labour between Eastern and Western Europe.

The Bavarian Objective 5b region was thus to be included in the study as an example of areas adjoining Eastern Europe whose status has been improved by the change in the political situation. This new 'central region' was joined in the study by the Scottish Highlands and Islands, a region on the northernmost perimeter of the Community. The Scottish Highlands and Islands are typical of Objective 5b regions which, unlike the positive example, the 'Bavarian frontier region', are likely to be worse off in competition among the regions, with the disadvantages due to their peripheral situation tending to increase as Eastern Europe is liberalized and when the Channel Tunnel is completed, since they will then be an even less favourable location than the southern English regions.

5.2. Bavarian Objective 5b regions and the Highlands and Islands

5.2.1. Bavarian Objective 5b regions

73. The economic strength of the five Bavarian development areas of the Objective 5b region[1] is on the whole well below the average, this being evident primarily from the shortage of non-agricultural jobs, below-average incomes, extensive commuting and continuing heavy dependence on the primary sector. An above-average proportion of the total labour force is still employed in agriculture and forestry, mostly in small units. A striking feature is the relatively high proportion of self-employed people. The unemployment rate, average for Bavaria, has been kept low only by fairly extensive migration from the mostly peripheral localities. Most other incomes are derived from tourism, the crafts and a number of industrial firms which have been attracted here in recent decades or have developed from what were once small firms in, say, the glass, earthenware and fine ceramics industries. Market and marketing structures are usually small-scale.

74. The recent political change brought about by German unification and the opening of the frontiers to the East has created a completely new situation, from which at least four of the five assisted areas in Bavaria are clearly benefiting. With the termination of national promotional measures under the 'community tasks' and 'frontier area promotion' programmes by the end of 1991, it has now become questionable whether Unterfranken and Oberfranken, for example, will still be able to claim Objective 5b funds from the Community in the future. There are indications that some of the present assisted areas in Bavaria will no longer qualify for a second round of assistance of the Objective 5b type.

75. Some 7% of the working population is still employed in agriculture, compared with 22% in 1970. While the number of full-time employees in agriculture has fallen very sharply, there has been a significant increase in the proportion of part-time farmers.

76. Given the unfavourable natural conditions and/or farm structure, the new common agricultural policy is having a particularly drastic effect by accelerating structural change in agriculture and the decline in the agricultural labour force. This has further increased the need for non-agricultural employment or the danger of migration. As much of the land produces low yields, farming is no longer guaranteed in the long term. The countryside will attract tourists, however, only if it is kept open, preserved and maintained by an appropriate

---

[1] Assisted area 1 in Lower Bavaria largely corresponds in area to the physical region known as the Bayerischer Wald. Assisted area 2 comprises the northern and eastern parts of the Oberpfalz administrative district. Assisted area 3 in Oberfranken is made up of areas adjoining Czechoslovakia and the former GDR and has pronounced monostructures. Assisted area 4 in Unterfranken consists almost entirely of peripheral, economically weak areas adjoining the former GDR. Assisted area 5 in Mittelfranken is a special case in that it is not a border area but a structurally very weak internal area with the greatest need for sectoral adjustment of all five priority regions. It still has the largest proportion of people employed in agriculture.

system of farming. The Community's restrictive price policy in recent years has forced the small farms, most of which are working poor soils, to intensify their methods by making greater use of inputs to raise yields and so compensate for reductions in income. Environmental problems have consequently grown, and new types of damage to forests at higher altitudes in the assisted area have been particularly pronounced. The environmental quality of the region will be at risk in the long term unless countermeasures are taken. They are all the more urgently needed since various studies have revealed that the competition in the food and semi-luxuries sector will become even fiercer on the completion of the internal market. This will result in firms in this sector merging and in potential savings, particularly in purchasing, being fully exploited.

Processing firms, the most important customers for agricultural produce, are increasingly attempting to pursue a dual strategy: on the one hand, they try to save costs wherever possible, not least when purchasing single products; on the other hand, the trend is towards high-quality specialities, where quality requirements are becoming ever more stringent and the environmental factor plays a decisive role. Products from the region have good prospects in this sector, where price levels are less important. Steps must also be taken to preserve and improve the quality of the environment so as to make the region more attractive to tourists.

77. The Objective 5b region's manufacturing industry achieved a turnover of DM 32.6 billion in 1989, 12.6% of the total in Bavaria. Some 52% of the labour force is employed in this sector — well above the 44% average for Bavaria. Over 2 000 firms employ more than 20 people. However, this reflects the strength not so much of industry as of the crafts, which occupy a key position in all five subregions. Besides the glass and ceramics industries already mentioned, the timber-processing, metals and electrical industries (suppliers to the automobile industry) and the textiles and clothing industry have been particularly successful in gaining a foothold here. The construction industry has benefited primarily from road construction and from the burgeoning tourist trade. Large automobile plants that have recently been set up near the Objective 5b region have made a major contribution to the employment of commuters, and the current concentration of new industrial firms on the site of the former nuclear fuel reprocessing plant at Wackersdorf (Schwandorf rural district) will also create numerous jobs.

78. Trade, transport and telecommunications are relatively underdeveloped. At only 13%, the proportion of the labour force employed in these sectors is well below the average for the country.

79. The tourist trade, which is largely concentrated in the Bayerischer Wald, parts of the Fichtelgebirge and the 'lake area' that has been created in Mittelfranken by the extension of the Main-Danube Canal, has grown sharply in recent years. With accommodation for 141 000 visitors (29% of the total in Bavaria), the tourist infrastructure is remarkably well developed.

80. Given the overall structure described above, the export trade in this Objective 5b region is still underdeveloped, which has implications for its integration into the Community. The value of exports in 1989 is estimated to have been about DM 10 billion, or only 10% of the Bavarian total. Besides a number of agricultural products, exports largely consist of glassware, porcelain, earthenware, toys and various craft products, with some machinery, electronics, textiles and clothing also being exported.

81. The whole region has, however, derived particular benefits from the recent political developments. An area that had seemed destined to remain peripheral for all time suddenly became the heart of Europe, and the fact that the Tirschenreuth rural district is the geographical centre of the continent has taken on a new meaning and augurs well in economic terms (see below). Although German reunification posed serious traffic problems for the former frontier areas in Oberfranken and Mittelfranken, it also boosted the retail trade and orders placed with local construction and industrial firms very significantly. The 'economic osmosis' with the new Federal *Länder* of Thuringia and Saxony that has now begun is likely to result in stronger economic development in these former peripheral areas.

The areas in Oberpfalz and Niederbayern that adjoin Czechoslovakia are also beginning to derive increasing benefit from the opening of the frontier. Here again, demand in trade has grown, cross-frontier supplies have begun, German-Czech firms have been set up, and agreements on joint ventures and subcontracting have been concluded. The fact that the former Iron Curtain can now be penetrated has similarly created a new attraction for the tourist trade, especially as the tourist infrastructure is not adequately developed in either the former GDR or Czechoslovakia.

82. Two major Bavarian transport projects are also likely to improve the region's international links at a stroke in 1992. The international airport at Munich-Erding is only about 100 km from the Bayerischer Wald, and the new Rhine-Main-Danube Canal offers the region new opportunities for both industrialization and the transport of such heavy goods as earthenware. The extension of the motorways to the East, work on which is now being stepped up, will also bring long-term benefits. Least affected by this development is the only internal area in the Objective 5b region in Mittelfranken, to which greater attention must be paid in future promotion. Despite the generally satisfactory state of long-distance transport infrastructure, there are very serious problems where short-distance transport links are concerned.

83. In view of its relatively few international linkages and previous peripheral situation as the Community's eastern outpost, the view hitherto has been that the influence of the forthcoming internal market on the Bavarian Objective 5b region will be rather marginal. Apart from chance and not very intensively cultivated partnerships between individual towns and rural districts and equivalent entities in France and Britain, there are no institutional links either. Nor, except in the local catering trade, is there any sign of fear of growing competition from other members of the Community in the local markets.

As it forms the Community's frontier with Eastern Europe, with its interesting economic potential in the long term, the region expects the late 1990s to bring some locational advantages, which are already being developed resolutely through close intensive personal and institutional contacts.

5.2.2. Highlands and Islands

84. The Community's northernmost region has the lowest population density, is very remote from the main centres and — the Highlands aside, since they form part of the British mainland — is highly fragmented into some 2 000 islands (90 of them inhabited). In the Highlands serious efforts are being made to establish industries in the administrative centre Inverness and in Fort William, Thurso and Invergordon, but the emphasis is largely on agriculture, fishing, oil, whisky distilleries and tourism. 'Clean manufacturing', tourism and the industrial processing of such local products as fish, timber and stone are consciously promoted.

85. Agriculture throughout the region is hampered by the fact that only about 1% of the land can be used for farming. It is believed that some 10 000 people, or about 9% of the labour force, are currently employed in agriculture.

86. The fishing industry is one of the most important branches of the regional economy, accounting for about 25% of GDP. A number of additional opportunities for industrial development are seen in the processing of fish and other products of the primary sector in the region itself. However, such projects have been thwarted in the past by the impossibility of guaranteeing continuity of supply.

87. Oil, most of which is found offshore, and the natural gas produced onshore are very important for the region's economy. Their effect is, however, largely confined to the manufacture and maintenance of drilling platforms and to certain downstream activities. Hopes of a significant increase in jobs have not been completely fulfilled, and since the mid-1980s the importance attached to the oil and gas industry in this respect has waned. In areas where many workers settled with their families it has now become a problem finding other jobs for those previously employed in the oil and gas sector. However, some 6 000 people — or 5% of the labour force — continue to earn their living in this industry.

88. The textile industry, traditionally based on the abundantly available sheep's wool, largely consists of small firms and homeworkers.

89. Tourism is a growing source of income for the whole region. However, its development is restricted by transport links that are still inadequate in some cases and by shortcomings in the tourist infrastructure.

90. In 1989/90 the Highlands and Islands exported goods to the value of UKL 686 million. However, whisky accounted for by far the largest proportion of this (UKL 600 million).

Besides the inadequate sectoral and regional diversification of the economy, unemployment and shortages of skilled workers, the problems with which the Highlands and Islands particularly have to contend include deficiencies in infrastructure and the consequent difficulty in attracting new firms.

91. All production in the Highlands and Islands is characterized by a low level of substitution of the imported goods required, making the region highly dependent on external sources for inputs. Most of these are, however, obtained from domestic sources (UK). The economy of the region is particularly deficient in a wide variety of economies of scale.

92. Major industrial projects have been a flop. One example is a large aluminium smelting plant which eventually failed because the cost of electricity, which is not subsidized, was too high, making the plant uncompetitive. A paper mill in Fort William had to close because it too was uncompetitive. With the exception of McDermott (drilling platforms) no foreign companies have in fact invested in the Highlands and Islands. The hope that expatriates, particularly in the USA, would become involved in their old home country has been dashed by the absence of any prospect of significant profits.

93. A major difficulty for the region is the shortage of good, trained workers. The few there are all too often go to work in the oil industry, since it frequently pays 50 to 60% more than the rates usual elsewhere. In the social sphere the region is affected by some West-East migration caused by oil and the greater concentration of industry in the East in recent years.

94. Where the whole of transport infrastructure is concerned, it must also be borne in mind that State subsidies in Britain are very low and that carriers are as a rule expected to be self-financing.

95. On the other hand, there are a number of special advantages. The low crime rate, the good education system and the quality of life are particularly positive features. The good environmental conditions are always stressed ('Europe's last wilderness').

96. Recently, cooperation with other regions in the Community, especially north-western France and the Mediterranean countries in Western Europe, has also increased.

97. When the Community is mentioned, the Channel Tunnel is referred to in almost the same breath, and it appears that, on the whole, the impact of this new fixed link with the Continent is viewed more seriously than the effect of the Community. A particularly prevalent view is that the tunnel will make Scotland even more peripheral and benefit the southern regions of Britain disproportionately.

98. It is also feared that the increase in competition brought by Europe '92 will cause many firms intent on investing in Britain in the past to go to southern Europe.

99. As manufacturing industry consists very largely of small and medium-sized firms with at most 200 employees, it is essentially geared to local needs and will therefore be hardly affected by the internal market when it is completed. The region's remoteness also plays an important part in this, imposing, as it were, natural external limits on possible competition. On the whole, it is evident that the completion of the internal market will not bring competition for the generally small firms but rather additional business opportunities. In particular, it is hoped that there will be good prospects in a larger market for the good quality that most small firms offer. A fear also expressed in this context, however, is that the Community will tend to promote quantitative growth rather than better quality and that this situation will become even more acute later.

100. Where the future prospects of the Highlands and Islands are concerned, a distinction is generally made between the short- to medium-term and the long-term outlook. Views on short- to medium-term prospects tend to be restrained, since a lasting change in the present situation is not expected in the very near future. This also applies to the initial period after the completion of the internal market. In the longer term, however, there is expected to be some prospect of success due not least to the belief that in the choice of locations growing importance will be attached to the environmental aspects and the attractions of the quality of life.

101. Some considerable importance is also attached to a telecommunications project which is currently being launched at a cost of UKL 5 million and is a first in Britain. Once the facilities are completed, the region expects to have a lead of five to six years over other British regions in worldwide technical communications.

Bibliography

Baker, T. J./Scott, S.: '1992 and the metal and mechanical engineering sector'. Report for the European Bureau, Department of the Taoiseach, The Economic and Social Research Institute, Dublin 1989.

Bavarian State Ministry of Food, Agriculture and Forestry: Operationelles Programm zur Entwicklung der ländlichen Gebiete (5b-Gebiete) im Rahmen der Reform der Strukturfonds im Freistaat Bayern, 1 Hauptband sowie 5 Teilbände für die fünf Teilgebiete in den Regierungsbezirken Niederbayern, Oberpfalz, Oberfranken, Unterfranken und Mittelfranken, Munich 1990. Bavarian State Government: *Grenzlandbericht 1988,* Munich 1989.

Begg, I.: An empirical assessment of factors shaping regional competitiveness in problem regions, Vol. V, in: Nam, C. W., Nerb, G., Russ., H. *Country Reports: United Kingdom and Ireland,* 1990.

Buruaga, G. et al.: *Efectos de la adhesión a la CEE sobre los sectores industriales y las regiones de España y Portugal,* Madrid 1988.

Booz, Allan and Hamilton: *Effects of the internal market on Greece, Ireland, Portugal and Spain,* 1989.

Cegos-Idet: *Les conséquences régionales de l'ouverture des marchés publics; le cas des secteurs des télécommunications, du gros matériel électrique et du matériel ferroviaire,* 1989.

Centre for Employment Research: *A social and economic profile of the North-West,* Manchester 1990.

Centre for Local Economic Strategies: *Local authorities and 1992,* Manchester 1990a.

Centre for Local Economic Strategies: *A profile of the Greater Manchester economy,* Manchester 1990b.

Commission of the European Communities: 'The economics of 1992', *European Economy,* No 35, 1988.

Commission of the European Communities: *Profiles of the regions of the Community,* 1989.

Commission of the European Communities: 'Social Europe', *European Economy,* Special Edition, 1990a.

Commission of the European Communities: 'One market, one money. An evaluation of the potential benefits and costs of forming an economic and monetary union', *European Economy,* No 44, 1990b.

Commission of the European Communities: *The regions in the 1990s.* Fourth periodic report on the social and economic situation and development of the regions of the Community, 1991.

Coopers & Lybrand: *Impact 1992. Survey of business attitudes,* Greater Manchester Economic Development Limited, 1989.

Crowley, J.: '1992 and the transport sector'. A report for the European Bureau, Department of the Taoiseach, Dublin 1990.

Cuadrado Roura, J./Mancha, T.: 'The single European market: Possible impacts on the spatial structure of Spain', Dortmund IRPUD paper, 1990.

Economic Research Centre: *Promoting regional transport.* Report of the 82nd Round Table on Transport Economics, Paris 1990.

Gray, A. W.: '1992 and the financial services sector'. Report for the European Bureau, Department of the Taoiseach, Indecon International Economic Consultants, Dublin 1990.

Gray, A. W./Scott, S.: '1992 and the tourism sector'. Report for the European Bureau, Department of the Taoiseach, Indecon International Economic Consultants, Dublin 1990.

Greater Manchester Research and Information Unit: *1992,* Oldham, 1986.

Hall B./Wilson, P.: *The North of England, prepared for 1992? A look at the issues facing the northern region in the shadow of 1992 and the single European market,* 1989.

Highlands and Islands Development Board: *The Highlands and Islands in statistics,* Inverness 1990.

The Irish Stationery Office: *Ireland, National Development Plan, 1989-93,* Dublin 1989.

Manchester City Council: *Economic development programme 1991-92,* 1991.

Mariotti, S.: 'Italian inward and outward direct investment', Politecnico di Milano, Internal report No 89-014, Milan 1989.

McCarthy, D. K., Ltd.: '1992 and the construction sector'. Report for the European Bureau, Department of the Taoiseach, Dublin 1989.

Molle, W. et al.: *European direct investment in Europe,* 1989.

Molle, W./Cappelin, R. (ed.): *Regional impact of Community policies in Europe,* Aldershot 1988.

Moro, B. et al.: *L'impatto dell'Atto Unico Europeo sul sistema economio regionale,* Cagliari 1989.

Nam, C. W.: 'Factors shaping regional competitiveness revealed in the theoretical and empirical investigations', *IFO-Studien zur Europäischen Wirtschaft,* No 3, Munich 1990.

Nam, C. W.: 'Quality, availability and competitiveness of business services in EC regions', *IFO-Studien zur Europäischen Wirtschaft,* No 6, Munich 1991a.

Nam, C. W.: 'Staatliche Eingriffe in den Marktprozeß in der Europäischen Gemeinschaft', *IFO-Studien zur Strukturforschung,* Munich 1991b (forthcoming).

Nam, C. W./Nerb, G./Russ, H.: 'An empirical assessment of factors shaping regional competitiveness in problem regions', Main Report, Document, Commission of the European Communities, 1990.

Nam, C. W./Reuter J./Russ, H.: 'The competitiveness of EC regions in the 1990s. An evaluation of established and up-and-coming EC regions', in: Kremme, P., *The single European market in the 1990s, IFO-Studien zur Europäischen Wirtschaft,* No 4, Munich 1990.

National Economic and Social Council: *Ireland in the European Community: Performance, prospects and strategy,* Dublin 1989.

Nerb, G. et al.: 'Bayern und der Europäische Binnenmarkt, 1992', *IFO-Studien zur Europäischen Wirtschaft,* No 2, Munich 1989.

Nerb, G./Reuter, J.: 'Die Bedeutung von Infrastruktur für die Wettbewerbsfähigkeit von Problemregionen' (published in: *Problems of international cooperation,* Quarterly report of the Forschungsinstitut der Friedrich-Ebert-Stiftung, No 1, 1991).

Nijkamp, M. N.:'The United States of Europe: Glorious victory or great defeat?', contribution to the 29th European Congress of the Regional Sciences Association, St John's College, Cambridge, 29 August to 1 September 1989 (not published).

North of England Regional Consortium: *The Channel Tunnel. Essential investment strategy for the nation,* Manchester 1989a.

North of England Regional Consortium: *1992, make or break for the North?,* Manchester 1989b.

O'Malley, E.: '1992 and the electronic, electrical and instrument engineering sectors'. Report for the European Bureau, Department of the Taoiseach, The Economic and Social Research Institute, Dublin 1990.

PA Cambridge Economic Consultants: *The regional consequences of the completion of the internal market for financial services,* Cambridge 1990.

Pitts, E.: '1992 and the food and drink industry'. Report for the European Bureau, Department of the Taoiseach, National Food Centre, Dublin 1989.

Regione Calabria: *Il PIM Calabria.* Various volumes, Cosenza.

Reuter, J.: 'Die strukturschwachen Gebiete der Gemeinschaft im Vorfeld von EG '92. Problemlagen, Entwicklungstrends und Perspektiven' (dissertation, publication: mid-1991).

Sauberzweig, D.: 'Handlungsstrategien zur Regionalen Kooperation', contribution to the seminar 'Chancen und Risiken für die Entwicklung der Region Sud Ost Niedersachsen vor dem Hintergrund des Deutschen und Europäischen Integrationsprozesses', 7 September 1990, Braunschweig.

Scottish Office: *Scottish Economic Bulletin,* No 41, June 1990.

Svimez: *Rapporto 1987/88/89/90 sull'economia del Mezzogiorno,* Rome 1990.

Villaverde Castro, J.: *Análisis de la estructura economica de Cantabria,* Cantabria 1990.

List of interviewees in the six regions investigated

Bavarian Objective 5b regions

Bayerisches Staatsministerium für Ernährung, Landwirtschaft und Forsten
Bayerisches Staatsministerium für Landesentwicklung und Umweltfragen
Bayerisches Staatsministerium für Wirtschaft und Verkehr
Regierung von Niederbayern
Regierung von Mittelfranken
Landratsamt von Tirschenreuth
Industrie- und Handelskammer Regensburg
Industrie- und Handelskammer für Oberfranken
Industrie- und Handelskammer für Niederbayern
Handwerkskammer Niederbayern/Oberpfalz
Deutsche Handwerkszeitung, Bad Wörishofen

Calabria

Svimez, Rome
Confindustria, Catanzaro
Federazione regionale fra le Associazioni Industriali della Calabria
Regione Calabria:
Assessorato Agricoltura e foreste
Assessorato all'Industria, Artigianato, Commercio, lavore e personale:
Dip. Promozione industriale
Dip. Rapporti CEE
Camera di Commercio, Industria e Artigianato, Catanzaro

Cantabria

Camara de Comercio, Industria y Navegación
Sodercan (Sociedad para el Desarrollo Regional)
Universidad de Cantabria, Dpto. de Economia
Diputación Regional de Cantabria
Organización empresarial

Greater Manchester

Centre for Local Economic Strategy, Manchester
Department of Trade and Industry, London
Manchester City Council, Salford

Highlands and Islands

Highlands and Islands Development Board, Inverness
Highland Regional Council, Inverness
Clydesdale Bank, Inverness
Western Isles Islands Council, Stornoway
Gaeltec, Isle of Skye
Scottish Office, Edinburgh

Ireland

Department of Finance, Dublin
Economic and Social Research Institute, Dublin
Industrial Development Authority of Ireland, Munich
National Economic and Social Council, Dublin

European Communities — European Parliament

The impact of 1992 and associated legislation
on the less favoured regions of the European Community

Luxembourg: Office for Official Publications of the European Communities

1991 — 60 pp. — 21.0 × 29.7 cm

ISBN 92-823-0320-9

Catalogue number: AX-71-91-437-EN-C

Price (excluding VAT) in Luxembourg: ECU 10

Venta y suscripciones • Salg og abonnement • Verkauf und Abonnement • Πωλήσεις και συνδρομές Sales and subscriptions • Vente et abonnements • Vendita e abbonamenti Verkoop en abonnementen • Venda e assinaturas

BELGIQUE / BELGIË

Moniteur belge / Belgisch Staatsblad
Rue de Louvain 42 / Leuvenseweg 42
1000 Bruxelles / 1000 Brussel
Tél. (02) 512 00 26
Fax 511 01 84
CCP / Postrekening 000-2005502-27

Autres distributeurs / Overige verkooppunten

Librairie européenne/ Europese Boekhandel
Avenue Albert Jonnart 50 /
Albert Jonnartlaan 50
1200 Bruxelles / 1200 Brussel
Tél. (02) 734 02 81
Fax 735 08 60

Jean De Lannoy
Avenue du Roi 202 /Koningslaan 202
1060 Bruxelles / 1060 Brussel
Tél. (02) 538 51 69
Télex 63220 UNBOOK B
Fax (02) 538 08 41

CREDOC
Rue de la Montagne 34 / Bergstraat 34
Bte 11 / Bus 11
1000 Bruxelles / 1000 Brussel

DANMARK

J. H. Schultz Information A/S
EF-Publikationer
Ottiliavej 18
2500 Valby
Tlf. 36 44 22 66
Fax 36 44 01 41
Girokonto 6 00 08 86

BR DEUTSCHLAND

Bundesanzeiger Verlag
Breite Straße
Postfach 10 80 06
5000 Köln 1
Tel. (02 21) 20 29-0
Telex ANZEIGER BONN 8 882 595
Fax 20 29 278

GREECE

G.C. Eleftheroudakis SA
International Bookstore
Nikis Street 4
10563 Athens
Tel. (01) 322 63 23
Telex 219410 ELEF
Fax 323 98 21

ESPAÑA

Boletín Oficial del Estado
Trafalgar, 27
28010 Madrid
Tel. (91) 44 82 135

Mundi-Prensa Libros, S.A.
Castelló, 37
28001 Madrid
Tel. (91) 431 33 99 (Libros)
431 32 22 (Suscripciones)
435 36 37 (Dirección)
Télex 49370-MPLI-E
Fax (91) 575 39 98

Sucursal:

Librería Internacional AEDOS
Consejo de Ciento, 391
08009 Barcelona
Tel. (93) 301 86 15
Fax (93) 317 01 41

Llibreria de la Generalitat de Catalunya
Rambla dels Estudis, 118 (Palau Moja)
08002 Barcelona
Tel. (93) 302 68 35
302 64 62
Fax (93) 302 12 99

FRANCE

Journal officiel
Service des publications des Communautés européennes
26, rue Desaix
75727 Paris Cedex 15
Tél. (1) 40 58 75 00
Fax (1) 40 58 75 74

IRELAND

Government Publications Sales Office
Sun Alliance House
Molesworth Street
Dublin 2
Tel. (1) 71 03 09

or by post

Government Stationery Office
EEC Section
6th floor
Bishop Street
Dublin 8
Tel. (1) 78 16 66
Fax (1) 78 06 45

ITALIA

Licosa Spa
Via Benedetto Fortini, 120/10
Casella postale 552
50125 Firenze
Tel. (055) 64 54 15
Fax 64 12 57
Telex 570466 LICOSA I
CCP 343 509

Subagenti:

Libreria scientifica Lucio de Biasio - AEIOU
Via Meravigli, 16
20123 Milano
Tel. (02) 80 76 79

Herder Editrice e Libreria
Piazza Montecitorio, 117-120
00186 Roma
Tel. (06) 679 46 28/679 53 04

Libreria giuridica
Via XII Ottobre, 172/R
16121 Genova
Tel. (010) 59 56 93

GRAND-DUCHÉ DE LUXEMBOURG

Messageries Paul Kraus
11, rue Christophe Plantin
2339 Luxembourg
Tél. 499 88 88
Télex 2515
Fax 499 88 84 44
CCP 49242-63

NEDERLAND

SDU Overheidsinformatie
Externe Fondsen
Postbus 20014
2500 EA 's-Gravenhage
Tel. (070) 37 89 911
Fax (070) 34 75 778

PORTUGAL

Imprensa Nacional
Casa da Moeda, EP
Rua D. Francisco Manuel de Melo, 5
1092 Lisboa Codex
Tel. (01) 69 34 14

Distribuidora de Livros Bertrand, Ld.ª
Grupo Bertrand, SA
Rua das Terras dos Vales, 4-A
Apartado 37
2700 Amadora Codex
Tel. (01) 49 59 050
Telex 15798 BERDIS
Fax 49 60 255

UNITED KINGDOM

HMSO Books (PC 16)
HMSO Publications Centre
51 Nine Elms Lane
London SW8 5DR
Tel. (071) 873 2000
Fax GP3 873 8463
Telex 29 71 138

ÖSTERREICH

Manz'sche Verlags- und Universitätsbuchhandlung
Kohlmarkt 16
1014 Wien
Tel. (0222) 531 61-0
Telex 11 25 00 BOX A
Fax (0222) 531 61-81

SUOMI

Akateeminen Kirjakauppa
Keskuskatu 1
PO Box 128
00101 Helsinki
Tel. (0) 121 41
Fax (0) 121 44 41

NORGE

Narvesen information center
Bertrand Narvesens vei 2
PO Box 6125 Etterstad
0602 Oslo 6
Tel. (2) 57 33 00
Telex 79668 NIC N
Fax (2) 68 19 01

SVERIGE

BTJ
Box 200
22100 Lund
Tel. (046) 18 00 00
Fax (046) 18 01 25

SCHWEIZ / SUISSE / SVIZZERA

OSEC
Stampfenbachstraße 85
8035 Zürich
Tel. (01) 365 54 49
Fax (01) 365 54 11

CESKOSLOVENSKO

NIS
Havelkova 22
13000 Praha 3
Tel. (02) 235 84 46
Fax 42-2-264775

MAGYARORSZÁG

Agroinform
Budapest I. Kir.
Attila út 93
1012 Budapest
Tel. (1) 56 82 11
Telex (22) 4717 AGINF H-61

POLAND

Business Foundation
ul. Krucza 38/42
00-512 Warszawa
Tel. (22) 21 99 93, 628-28-82
International Fax&Phone
(0-39) 12-00-77

YUGOSLAVIA

Privredni Vjesnik
Bulevar Lenjina 171/XIV
11070 Beograd
Tel. (11) 123 23 40

CYPRUS

Cyprus Chamber of Commerce and Industry
Chamber Building
38 Grivas Dhigenis Ave
3 Deligiorgis Street
PO Box 1455
Nicosia
Tel. (2) 449500/462312
Fax (2) 458630

TÜRKIYE

Pres Gazete Kitap Dergi Pazarlama Dağitim Ticaret ve sanayi AŞ
Narlibahçe Sokak N. 15
Istanbul-Cağaloğlu
Tel. (1) 520 92 96 - 528 55 66
Fax 520 64 57
Telex 23822 DSVO-TR

AUTRES PAYS
OTHER COUNTRIES
ANDERE LÄNDER

Office des publications officielles des Communautés européennes
2, rue Mercier
2985 Luxembourg
Tél. 49 92 81
Télex PUBOF LU 1324 b
Fax 48 85 73
CC bancaire BIL 8-109/6003/700

CANADA

Renouf Publishing Co. Ltd
Mail orders — Head Office:
1294 Algoma Road
Ottawa, Ontario K1B 3W8
Tel. (613) 741 43 33
Fax (613) 741 54 39
Telex 0534783

Ottawa Store:
61 Sparks Street
Tel. (613) 238 89 85

Toronto Store:
211 Yonge Street
Tel. (416) 363 31 71

UNITED STATES OF AMERICA

UNIPUB
4611-F Assembly Drive
Lanham, MD 20706-4391
Tel. Toll Free (800) 274 4888
Fax (301) 459 0056

AUSTRALIA

Hunter Publications
58A Gipps Street
Collingwood
Victoria 3066

JAPAN

Kinokuniya Company Ltd
17-7 Shinjuku 3-Chome
Shinjuku-ku
Tokyo 160-91
Tel. (03) 3439-0121

Journal Department
PO Box 55 Chitose
Tokyo 156
Tel. (03) 3439-0124

1 8 13 AX-71-91-437-EN-C

Price (excluding VAT) in Luxembourg: ECU 10

ISBN 92-823-0320-9

OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg