

# Carpathian Euroregion: Prospects and Challenges



## Carpathian Euroregion: Prospects for Economic Trans-border Co-operation

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Research Center of the Slovak Foreign Policy Association  
Strategies Studies Foundation

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Carpathian Euroregion: Prospects and Challenges


Workshop # 3

# **Carpathian Euroregion: Prospects for Economic Trans-border Co-operation**

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Research Center of the Slovak Foreign Policy Association  
Hlavná 11, 080 01 Prešov, Slovak Republic  
Tel./fax: (421) 51 772 32 45  
E-mail: [duleba@sfpapo.sk](mailto:duleba@sfpapo.sk)  
[pfeiferova@sfpapo.sk](mailto:pfeiferova@sfpapo.sk)  
[www.sfpa.sk](http://www.sfpa.sk)

Strategies Studies Foundation  
30, Zagorska Street, 880 00 Uzhgorod, Ukraine  
Tel.: (380) 3122 318 27  
Fax: (380) 3122 318 39  
E-mail: [riac@mail.uzhgorod.ua](mailto:riac@mail.uzhgorod.ua)

Edited by: Anton Marcinčin and Svitlana Mitryayeva

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## Map of the Carpathian Euroregion



# PREFACE

The Research Center of the Slovak Foreign Policy Association, Prešov (Slovakia) and the Strategic Studies Foundation, Uzhgorod (Ukraine) held the workshop on *Carpathian Euroregion: Prospects for Economic Trans-Border Co-operation* on June 27-28, 2001, in Prešov (Slovakia). This event was the third in the series of four workshops within the joint project on *Carpathian Euroregion: Prospects and Challenges*. The first workshop on *Role of the Carpathian Euroregion in strengthening security and stability in Central and Eastern Europe* was held on November 23-25, 2000, in Sanatorium Karpaty (Transcarpathian Region of Ukraine). The second workshop on *Role of the Carpathian Euroregion in confronting its minority agenda* on March 29-31, 2001, as well in Sanatorium “Karpaty”. This project is supported by the Freedom House’s programs Partnership for Reform in Ukraine and Regional Networking Project and the Carpathian Foundation.

The project aims to address prospects for future developments of the Carpathian Euroregion and examine its role in the following areas:

- Strengthening security and stability in Central and Eastern Europe
- Solving minority problems in the area
- Improving cross-border economic co-operation
- Overcoming possible negative effects of the implementation of the Schengen-type border on eastern borders of an enlarged European Union.

The main goals of the project are as follows:

- To elaborate policy recommendations for the Carpathian Euroregion and also for central and local state and self-government authorities of the five participating countries
- To create a network of think-tanks and academic community within the Carpathian Euroregion in the field of political and economic studies
- To provide expert background for public discussion on issues of security, welfare, minorities, and Schengen in the area of Carpathian Euroregion and member countries.

This publication presents the policy recommendations on role of the Carpathian Euroregion in improving cross-border economic co-operation that are worked out on the basis of the workshop discussion, the full text of the keynote reports and also selected contributions made during the panel discussions.

**Alexander Duleba**

Research Center of the Slovak Foreign  
Policy Association  
Prešov

**Svitlana Mitryayeva**

Strategies Studies Foundation  
Uzhgorod

# Carpathian Euroregion: prospects for economic trans-border co-operation

## **POLICY RECOMMENDATIONS**

One of the reasons of establishing Carpathian Euroregion was an improvement of economic conditions of five poor regions by coordinated mutual assistance. The goal was clear and perhaps also measures of reaching it: promoting and advocating common interest projects (for example border crosses) with national governments and delegations from third countries and international institutions (like European union); developing common interest projects, networking and representing the Euroregion where appropriate. There are many institutions that would logically welcome cooperation within the Euroregion: municipalities, public administration bodies, commercial chambers, schools and larger companies.

Although there may be an interest and today also institutional background for cooperation, the role of locals in preparing and promoting projects seems to be inadequate. Certainly, neighboring regions cooperate on common projects, but the question is whether Carpathian Euroregion is helping them. In other words, does the fact, that there is Carpathian Euroregion, bring anything positive to the local people?

On the third conference organized by the SFPA and SSF, presentations of people from all five countries attempted to describe current economic situation in their regions, diagnose problematic areas and propose changes, thus offering a feedback for preparing economic agenda of the Euroregion. In the next paragraphs we first provide a rationale for cooperation, then summarize main issues and finally highlight several points where Carpathian Euroregion could assist and include them to its agenda. The goal is to answer questions like: what are the profit possibilities of the region? What, on other hand, are obstacles to profit making? Why is it so difficult to bring capital to the region? What is a role of Carpathian Euroregion as an institution?

### **The rationale for economic cooperation within the Euroregion**

High unemployment rate has its large fiscal cost. The government takes responsibility of providing social security to unemployed and spends money to

help them find new jobs – usually by hiring training companies or organizing public works. Other part of fiscal cost is a loss on tax and contribution payments side. While it is clear that governments aim at minimizing unemployment rate, it is debatable which tools they should use. Post-communist countries usually delay structural reforms, which are time demanding and find opposition in many businesses, and rely on general increase of contribution rates. At the same time, high social expenditure does not allow them to finance special policies on regional development.

The theory predicts that the labor responds to the regional difference in unemployment rate and wages by relocation. That would on one hand decrease fiscal cost of unemployment, but on the other create empty regions. If the latter is bad, then it is especially in the interest of people who live in poor regions to coordinate their activities and submit reasonable proposals to national governments.

What is a prognosis of relocation of labor? In other words, what development can we expect and what are the main factors influencing people's decision? Some of factors are certainly strictly economic – high sunk cost attached to the place where they are living, other are emotional – historic and family roots.

High unemployment and opening gap between income in rich and poor regions, together with a brain drain from poor regions will influence composition of labor in a negative way. People's decision to stay or move away could be described by the following cons and pros: If they move, their incomes will likely be double or triple, plus they will receive revenues from selling their house (or flat). If they stay, they have as high as 30% probability to end up unemployed, collecting only unemployment or social benefits. But at the same time, they would be able to farm, earn side money from occasional works and enjoy mutual help within usually large families. On the expenditure side, there could expect very high rents even for much worse quality housing, then they are used too, and generally high prices in capital cities, while modest price level at home. As for expenditure, they would likely include also a difference in selling price of their house (flat) and actual cost of building such house. In fact, new and large houses are built quite often in areas of high unemployment, which will only delay labor mobility in the future.

Speaking strictly economically, people will move away from the region only if their net gains would be positive, i.e.

$$(\text{Income in low unemployment region} + \text{Revenues from selling house}) - \\ (\text{Rent and price level in low unemployment region})$$



Must be higher than

(Income in high unemployment region + Revenues from farming and family help) –  
(Rent and price level in high unemployment region) –  
(Positive difference between house construction cost and selling price)

Where income is in majority of cases a probability of having job multiplied by respective wage, plus local unemployment rate multiplied by unemployment benefits.

It is clear that even high unemployment in the region may not be enough to make people move to wealthier regions and this increases fiscal cost of unemployment and probability of increased criminality and unofficial employments. Therefore, the central government has very good interest to encourage people in poor regions to try to find ways of improving their economic situation. Speaking about Carpathian Euroregion, which is composed from poorer regions of the five countries, we can see this as good economic reason for five national government to encourage better economic cooperation within the Euroregion.

## **Obstacles to making profit in the region**

In their presentations, authors indicated low access to capital a main obstacle to economic development in the region. In order to avoid any misunderstanding, we shall see the problem from the viewpoint of profit opportunities, rather than pure capital availability. Simply, capital flows wherever it can gain profit. If there are obstacles to profit opportunities, then administrative measures take different form of subsidies, which in longer run could bring more damage than good.

We shall distinguish between objective and subjective obstacles to profit opportunities. Legislation and institutions that are the same for a country represent objective reasons. Regions are trying to influence them, but it is very difficult and long run task. An example of objective reason would be a high credit cost, which is caused by bad bankruptcy legislation or commercial code, and not, as often complained, low interest of banks in giving credits. Subjective reasons are more related to the abilities of people who live in regions and their involvement in local policy making.

As for objective obstacles to profit opportunities, we identified the following:

*Legislation.* In countries like Slovakia, public administration reform is discussed only now. Local self-governments then do not match competencies and

rights of their partners in neighboring foreign regions. Economic legislation itself is sometimes quite obsolete – some important laws in several countries were not changed for decades, although they cannot serve market conditions. Legal protection of patents, trademarks and brands is not strict enough. Real protection of investment is missing in some countries.

*Inadequate institutional setup.* On the one hand, we noted inefficiency of custom offices, which paralyze trade exchange between smaller enterprises. But it also includes practices at local offices of public administration, police and courts.

*Insufficient infrastructure.* One participant noted: “due to the lack of number of border crosses, there are neighboring villages, where one has to travel hours to arrive from one to the other.” Next to the border crosses and their regimes, the problem is good and reliable connection with the world. A highway between Miskolc and Budapest may be good starting point for neighboring regions.

*Difficulties in registration of joint ventures.* It is a general problem especially for smaller businesses in the region. Without a reform on the national level of corporate registry and commercial code, much progress cannot be expected in the region.

*Lack of special economic zones.* This problem has to do with land reform and land registry. Even if there is interest of municipalities and investors, quite often it collapses on inability to identify ownership of land.

*Corruption.* A problem that starts with little presents to police (famous beer and cigarette passes) and gets more serious level with higher state hierarchy. We hear complaints from local businessmen that officers have too much decision power and can “bleed” their customers. Though this is an objective problem, it depends very much also on locals if they fight corruption or not.

*Finance.* The under-capitalization of enterprises in the region is a general problem that would require years to solve. But there is number of projects that should be at present stage financed by public funds, for example infrastructure development. Such investment would actually help to bring private interest into the region. The European Unions’ PHARE program supports this area, but one of the countries, Ukraine, is not eligible for PHARE funds.

*Visa regime.* Visa regime and the way visa are given are especially harmful to tourism.

*Inadequate interest and support from central government.* All participants agreed their regions seem to be “too far” from national centers. However, all regions must compete for interest and support of central government, so it is also subjective problem.

*Lack of common language* was identified as a serious obstacle to enterprising. Small entrepreneurs rarely speak foreign languages like English, German or even Russian. Although the three Slavic nations can understand each other without interpretation, it is not the case of Romanians and Hungarians.

Subjective obstacles are not so popular as for the frequency one can hear about them. Compared to the objective obstacles, however, these may be better to concentrate our attention to, as they could be perhaps easier and faster to manage.

*Lack of coordination in use of the European union funds.* Next to the PHARE program, there is also CREDO and TACIS, where Ukraine belongs to the eligible countries. The impulse for coordination must come from the region. That is why it is so important that the Carpathian Euro region operates efficiently, as it should develop, promote and advocate projects of common interest with five government and international institutions and organizations.

*Lack of coordination in building infrastructure.* The Carpathian Euroregion, as an institution, should help to coordinate activities directed towards building new infrastructure.

*Corruption and institutional setup.* Local people are employed in institutions that are blamed for slowness, corruption and inefficiency. Many problems are deep and could be solved only on national level; but many personal and operational questions must be solved on local level.

*Finance.* Several participants noted that establishment of a specialized bank could help the situation. But such solution is generally dangerous and leads to bad results. However, in the situation of the Carpathian Euroregion, where no bank has branches in all five countries and the region, may help for coordination purposes. The other solution would be if the Euroregion organized a tender for existing banks that would deliver the same service.

*Education and research. Media coverage. Promotion of the region.* People in the Euroregion have very little information about their neighbors and people outside the Euroregion about them. Although there is cooperation among universities, it has

not brought visible results to general public. Chambers of commerce, together with departments of municipalities and public administration bodies have not made much effort to offer information on business opportunities.

## **Conclusion**

The participants of the conference clearly identified main areas that would help the Carpathian Euroregion to compete on the European and global market: it is a market of 136 million consumers, but with unclear and unstable legislation, insufficient infrastructure, labor force hit by structural changes, lack of capital and young business support organizations.

An institution that was established to help the region, the Carpathian Euroregion is clearly not doing its job. According to the survey made in the Euroregion, majority of people hardly heard of the institution and only one fifth of them were able to identify advantages of membership in the Euroregion. The worst situation was in Slovakia (3%) and, very interestingly, especially among entrepreneurs. It would be useful, if the institution called Carpathian Euroregion took suggestions, critiques and comments that were spelled out at the conference seriously and tried to improve its activities. I believe, many points made at the conference could help local policy makers, businessmen, academics and general public to gain better understanding of prospects of economic development in the region. The book, which is mainly a collection of presentations, would be good guide to all of them.

**Anton Marcinčin**

Slovak Foreign Policy Association  
Prešov

**Svitlana Mitryayeva**

Strategies Studies Foundation  
Uzhgorod

# KEYNOTE ADDRESSES

*Presented by:*

***Otto Kovchar***

*Transcarpathian Chamber of Commerce and Industry, Uzhgorod*

***Adela Coman***

*University of Baia-Mare*

***Árpád Horánszky***

*Chamber of Commerce and Industry for Borsod-Abaúj-Zemplén County, Miskolc*

***Slawomir Rębisz***

*Pedagogical University of Rzeszów*

***Anton Marcinčin***

*World Bank and RC SFPA Prešov*

**Otto Kovchar**

## ***Carpathian Euroregion: Prospects and Tasks***

First of all allow me to stop on brief review of condition of Ukrainian economy. Results of the first months of 2001 show that economic growth in Ukraine not only lasts, but also is accelerating. For this period the internal gross output has exceeded all forecasts and has increased by 8.5 percents. Inflation, in the same time, was smaller than predicted and has made 4.3 percents. In May, inflation has significantly decreased by 0.4 percents.

Industrial production has increased by 18.4 % (one of the highest parameters among the European countries). Agriculture, construction, stability of the country's currency market and profits of the state budget has positive dynamics and is kept on positive balance in foreign trade while being significantly activated. Rates for credits of commercial banks reduced and volumes of crediting of real sector of economy (13% from the beginning of the year) increased. The positive changes were noticed in social sphere as well. The money incomes of population have increased at January - April 2001 by 6.1 %, which will certainly accelerate development of inner market.

These tendencies allow **improving prospects of economic development** in current and subsequent years. In 2001 it is possible to expect growth of the real gross output not less, than 6.2 % (in 2002: 6%, 2005: 7.5 %), decrease of inflation rate to 10 percents in 2002 and around 5 to 6 percents in 2003-2005, support of a currency stability and decrease of rates of re-financing state debt.

Total volume of **direct foreign investments** per capita is about \$80. In past, much has been done to form a **legal base**, adequate to the requirements of market economy. Number of laws has been accepted, which provide state guarantees of protection for the foreign investments and their invariance, equal conditions of activity and taxation from the domestic investors and opportunity to establish preferential forms of investment activity, particularly in special (free) economic zones.

Ukraine has already signed agreements "On preference and mutual protection of the investments" with 50 countries of the world. The Washington Convention of 1965 about the order of the decision of investment disputes between the states and foreign persons is in force. One of the points of investment climate improvement in Ukraine is adoption of Tax Code, which provides in particular reduction of quantity of taxes, fees (obligatory payments), decrease of tax rates on corporate income from

30 to 25 percents, decrease of VAT from 20 to 17 percents, introduction of three rates of taxation of physical persons incomes - 10; 20 and 25 percents, and decrease of taxation rates on dividends from 30 to 15 percents.

The essential step in the directions of improvement of investment climate is **land reform**. In 2000 the first stage was practically completed, resulting in creation of more than 15 thousands new agricultural enterprises of market type. Property certificates on land share were given to 6.5 million citizens. With acceptance of the Law of Ukraine “On land rent”, lenders of land can be both residents and non-residents. The legislation stipulates sale of the land areas of non-agricultural use for both physical and legal entities, including enterprises with foreign investments.

The most significant results on territories with special regime of investment activity are achieved in Zakarpatye, Donetsk and Lvov areas. In Zakarpatye area 49 investment projects will be realized with general planned budget \$196.3 million, of which \$33.2 million was already invested. Foreign investors’ share on invested capital is \$22.4 million (67.5%), producing 135.7million UAH.

A special attention in Ukraine is paid to attract foreign capital to power supply objects. In this year, 6 power companies sold their shares. The fact of appearance of such known companies as RES (USA), Slovak State enterprise Vychodoslovenske energeticke zavody and some other on the Ukrainian market brings hope for fruitful and long-term cooperation in the field.

At this moment regulation of economic activity of **small business** becomes simpler in Ukraine. It is possible to earn money in Ukraine now. Experts estimate growth of small business, due to a decrease of tax pressure and liberalization of economic activity in 2002, to 3.2 million entities (compared with 2.7 million in 2000) and a gain of a part of small business in gross output by 12% (compared with 10% in 2000). Simplified kinds of taxation, like the uniform tax rates (6-10%), help small businesses.

The priority problem of foreign economic policy of Ukraine in its integration into international economic community remains joining the World Organization of Trade.

## **Trade exchange between Ukraine and Slovakia**

The Slovak Republic remains significant business partner of Ukraine. In 2000, Slovak Republic ranked 10th in trade exchange with Ukraine (after Germany, Italy, Poland, Great Britain, Hungary, Bulgaria, Switzerland, Austria and France). The highest

peak in commodity circulation was in 1997 (commodity and services circulation of \$528.4 million). The Slovak import to Ukraine gradually reduced since 1997.

The most important commodity of Ukrainian export to Slovakia is iron ores and concentrates (26-27% of all export in 1998-2000). In 1998-2000, Ukrainian export to Slovakia in the specific weight of the following goods has increased: Raw aluminum - from \$4.3 million (1.7% of total export volume) in 1998 to \$20.8 million (9%) in 2000; Rolled carbon steel of width from 600 mm of hot rolling not plated without a covering - from \$16.8 million (6.9%) to \$19.6 million (8.5%); Restored pneumatic tires or second-hand – from \$3.1 million (1.3%) to \$14.7 million (6.4%); and Raw timber – from \$6.2 million (2.5%) to \$13.8 million (6%).

The Ukrainian export of the following goods to Slovakia has decreased in the period of 1998-2000: Electric power - from \$31.3 million (13%) in 1998 to \$4.7 million (2%) in 2000; Coal - \$17.4 million (7%) to \$13.3 million (5.7%); Mineral fertilizers - from \$10.2 million (4.2%) to \$0.6 million (0,3%); and Ferroalloys - from \$7.9 million (3.2%) to \$3.4 (1.5%).

It is necessary to note, that the leading positions of the Ukrainian export to Slovakia are occupied by raw material, half-finished products and products of power-intensive industries. The share of high-tech products is insufficient - only in 2000 export of electric sound and video alarm equipment to Slovakia was \$4.9 million (2.1%).

The leading positions of Ukrainian import from Slovakia in 1998-2000 had Magnesite; in 1998: \$15.9 million (9.5%), in 2000: \$30.3 million (24.4%); and Fireproof ceramic construction materials in 1998; \$8.4 million (5%), in 2000: \$12.4 million (10%).

In January - March 2001 the general turnover of goods between Ukraine and Slovak Republic reached volume \$90.688 million, which is 23.7% more (+\$17.4 million), than in January - March 2000. The dynamics of general turnover of goods between Ukraine and Slovakia in the first quarters of last five years is presented below:

	1997	1998	1999	2000	2001	'01/'97	'01/'98	'01/'99	'01/'00
Turnover, \$m	98.13	90.40	67.05	73.25	90.67				
Change in turnover, %						92.4	100.3	135.2	123.7



For the period October - December 2000 the monthly volumes of general turnover were \$35.6 million. In the first quarter of 2000 the general monthly turnover was \$24.85 million, in the second quarter \$26.1 million, in the third quarter \$25.5 million and in the fourth quarter \$31.8 million. In the current a year it is \$30.2 million.

Export of the Ukrainian goods to Slovakia in January - March 2001 constituted of \$61.922 million, which is more by \$14 million (+29.2%) than in January - March 2000. The dynamics of the Ukrainian export to Slovakia in the first quarters of last five years is characterized by the following data:

	1997	1998	1999	2000	2001	'01/'97	'01/'98	'01/'99	'01/'00
Export, \$m	60.72	59.22	41.92	47.92	61.92				
Change in export, %						102.0	104.6	147.7	129.2

The volumes of Slovak import from Ukraine in January - March 2001 has increased in comparison with same period of the last year by \$3.4 million (+13,4%) and resulted in \$28.75 million.

The total volume of foreign trade of services between Ukraine and Slovakia in 2000 reached \$14.769 million, which is almost the level of 1999 (\$14.824 million). At the same time volumes of lending foreign services, such as directly connected with border crossing of citizens, have decreased.

Services connected with tourism have decreased almost by \$200 thousands (-31%). Thus import of services landed by Slovakia to the Ukrainian tourists has decreased by more than \$265 thousands (-50%). For an illustration, 684.6 thousand Ukrainian tourists visited Slovakia in 2000, but 1,499 thousand persons in 1999 (more by 54,2%).

Serious reductions were felt in the sphere of construction services. Total volume of foreign imports in this sphere was reduced in 2000 by \$1.675 million compared with previous year. Again, the loss was felt not only by Slovakia, as the import of construction services has decreased almost by \$1.4 million (Ukrainian export of construction services was \$22.2 thousand, though in 1999 it was \$318.1 thousand).

Investment cooperation between Ukraine and Slovakia continues to develop. The Slovak entities invested to 195 enterprises. Slovak investments make 1.1% of total volume of the foreign investments to Ukraine. In regards of volumes of the

investments brought to Ukraine, Slovakia occupies the 18th place among all countries and the 3rd place among the countries of Central and Eastern Europe (after Poland and Hungary). However, the statistics does not take into account investments made by Slovakia to the structure of KGZKOR. These investments do not have status of the foreign investment, because they did not pass state registration stipulated in The Law of Ukraine “On mode of foreign investment”. Slovakia has carried out work at the group of enterprises, put equipment on service and invested capital of \$127.84 million. The Slovak CHEMOSVIT invested approximately \$16 million in Ukraine on 16 projects.

## **Trans-Carpathian region**

Slovakia is one of the four European countries, bordering Transcarpathian region. Taking into account the traditional foreign economic, cultural, ethnic relations and the common borderline the length of which 98,5 kilometers, the cooperation with this country in economic direction has always been long-term one for the Transcarpathian businessmen.

91 subject of entrepreneur activity has been registered with the participation of Slovak capital by 1.4.2001, foreign investments was \$16.5 million (10,0% of investments in the area).

The largest number of enterprises with Slovak capital is registered in Uzhgorod (40) and Mukatchevo (6). The geographical origin of Slovak investments is wide: Michalovce, Košice, Vranov, Bratislava, Trebišov, Martin, Prešov and Trnava.

The sector of production of such Slovak enterprises as Cebo, Stav-Gron, Euro-Comp, Tempo and Gelko is footwear production, fulfillment of contract works in capital investments for industrial, public and housing construction, engineering structures, manufacture, installation and service of computer facilities, and construction of tourist and household complexes.

The largest Slovak investment is at Coomex-Ukraine joint venture, \$4.0 million, and Bukas Ltd., joint venture, \$0.33 million.

In 2000, a decline of foreign trade between the two countries continued. First of all it was connected with orientation of the Transcarpathian enterprises for co-operation with partners from European countries such as Germany, Austria and Great Britain. Besides, negative influence had the introduction of visa regime since June 2000.

The total volume of foreign trade turnover with Slovakia in the past two years is \$14.6 million. A proportion of Slovakia in the total volume of foreign trade turnover in the area was reduced by 4.8% in 1999 and by 3.7% in 2000. Export of domestic products to Slovakia and import of Slovak products to Transcarpathia decreased on 2000 to the less than half of 1999.

The basic export articles of the region to Slovakia in the past year were: wood and wooden products \$4.2 million (40.1% of total export), black metals and products \$1.9 million (18.1%), raw leather \$0.65 million (6.2%), plastics and plastic products \$0.5 million (4,8%) and manufacturing of uppers and footwear \$0.2 million (1.9%).

The first quarter of year 2001 is characterized by improvements in foreign trade relations with Slovakia. Total volume of foreign trade has increased, compared to the appropriate period of the last year almost twice and reached \$4.6 million. For comparison, the rate of growth of foreign trade turnover as a whole in the region in the 1st quarter of 2001 was 149.0%. Specific weight of the country has increased in total volume of foreign trade turnover of the area by 4.3% against 3.3% in the 1st quarter of 2000.

The balance of foreign trade in current year continues to remain positive. It reached \$2.0 million in the 1st quarter 2001, which was 153.5% of Ukrainian imports from Slovakia. In the current year Slovak partners were mostly interested in such kinds of goods like wooden products, black metals and products, electrical equipment.

The volumes of foreign trade with services with Slovakia in 2000 have decreased in comparison with 1999 by 25.7% and reached \$1.7 million. Export of services increased by 51.7% and imports of services decreased by 69,1%.

In the first quarter of 2001 the volume of foreign services landing was \$0.3 million and increased in comparison with the appropriate period of the last year by 24.1%. A growth was held at because exports increased by 73.2%, while imports increased only by 50.2%.

In view of the economic situation, which has developed in the area, significant part of not utilized. The creation of joint ventures would give an opportunity to make competitive production and sales on the territory of Slovakia and Ukraine. Similar enterprises would be expedient to create at marble processing quarries. There is an incentive of light industry enterprises in joint labor, including the conditions of delivery of raw material for give-and-receive work and direct industrial cooperation.

## **Conclusion**

The introduction of special regime of investment activity will assist, in the first turn, the liquidation of consequences of floods in Transcarpathia and restoration of ecological system of Carpathian Mountains, prevention of social tension, solution of socioeconomic problems, and development of a national economy of the area as a whole.

The basis for development of interregional connections and its component part is the cross-border cooperation and in this key it is necessary to work on creation of conditions for the free dialogue of population of bordering regions of Ukraine and adjacent countries with the purpose of preservation of historical, ethnical, social, cultural and related connections of the citizens.

In this connection it would be expedient to jointly elaborate the following projects of Ukrainian-Slovak cross-border cooperation, using the means of the European commissions' programs CREDO, TACIS and PHARE:

1. Construction of border crossing point at Solomonovo-Čierna with the respective road infrastructure;
2. Reconstruction of existent border crossing point at „Uzhgorod-Vyšné Nemecké“.

# **Adela Coman**

## ***Romanian Perspectives***

### **Business environment**

#### **Corporative Legislation**

In Romania, the legislative framework which regulates the activity of trade companies is ensured by the Romanian Commercial Code, issued on May 10, 1987, with due modifications up to the present, and Law no. 31/1990, regarding trade companies, republished in the Romanian Official Monitor part I, no. 33/January 29, 1998. Trade companies are thus defined in accordance to Law 31 as:

1. Legal entities (corporate bodies) that have as object trade activities
2. Commercial enterprises organized by one or several persons for a lucrative purpose and for generating profit by exercising common trade activities

Trade companies based in Romania are Romanian legal entities. Trade companies can take one of the following forms:

- a) Company in collective partnership
- b) Simple limited partnership
- c) Company of shareholders/joint-stock company
- d) Companies of shareholders with limited liability
- e) Limited liability companies

The social assets guarantee social duties. Partners in a), b) and c) above have together unlimited responsibilities regarding social duties. This means that if social assets prove to be insufficient and do not cover social duties regarding third parties, partners are held responsible with all their personal assets.

Also, if the company does not pay in maximum 15 days after notification of delay, creditors may take legal action against any of the partners, forcing the latter to pay for the entire debt. The partner in case becomes creditor towards his/her partners and may recover his/her share from the others. Shareholders, 'sleeping' partners and partners with limited liability are responsible according to their contribution, namely their subscribed social asset. Active partners have a special contribution to the organization and management of trade companies. They represent the administrators. Sleeping partners are usually executives and have a more significant financial contribution.

## **Organization of corporations**

Companies in collective partnership or simple limited partnership are founded by a society contract, whereas a contract and an ordinance legally found joint-stock companies, limited liability shareholder companies and limited liability companies. One person may found limited liability companies only. In this case, the ordinance is enough. The society contract and the ordinance may be drafted as unique written record deemed constitutive deed.

*Registration of companies.* Within 15 days from the date of the authentication of the constitutive deed by the delegate judge to the Office for Commerce Registration, founding members or administrators of the society, or their legal representatives will have the company registered in the Register of Commerce for their respective areas. The company becomes a legal entity at the date of registration. Contribution of capital is mandatory to constitute any type of company. Contribution of goods may be admitted for all societies. This is generally made by transfer of the respective rights and effective delivery of usable goods to the company. Contribution in the form of work is not admissible to form or increase the social asset.

## **Functioning of corporations**

*Companies in collective partnership.* The right to represent the company belongs to each administrator unless otherwise mentioned in the constitutive deed. Partners may take on work contribution as social contribution; in exchange they have the right to share benefits and social assets as well as the obligation to partake in covering losses.

Any partner who, without written consent from the other partners uses capital, goods or social credit for his/her own benefit or for the benefit of other persons is obliged to return to the company all the resulting benefits and to pay damages for damages caused.

*Simple limited partnerships.* The administration of the above is entrusted upon one or more active partners. Any sleeping partner may operate in the account of the company only if given a special proxy for determined operations. The proxy is issued by the representatives and must be registered in the Register of Commerce. Any sleeping partner may work in the administration, may act as a supervisor, and may take part in naming and dismissal of administrators, in the cases stipulated by law.

*Joint stock companies.* Joint-stock companies are constituted by integral and simultaneous subscription of capital by the signers of the constitutive deed, or by public subscription. The social asset of the company cannot be smaller than 25 million ROL and there must be at least five shareholders. The social asset is represented by shares issued by the society and can take either face value or bearer stock share. The face value of any share must not be smaller than 1000 ROL. Any payable share gives its holder the right to vote in the general assembly, unless otherwise specified in the constitutive deed.

One or several administrators, who are temporarily assigned and dismissible, administer joint-stock companies. In the case of several administrators, a board is constituted. The single administrator, as well as the chairperson of the board of administrators must be a Romanian citizen, unless otherwise specified in the constitutive deed. Assigning and dismissal of administrators are done solely by the general assembly.

Administrators must make a deposit for their administration, as specified in the constitutive deed, or, if there is no specification, as approved by the general assembly. The deposit cannot be smaller than the face value of 10 shares or the double of the monthly salary. If the administrator is a shareholder, the deposit may be made, at request by 10 shares, which, during the mandate are inalienable and are kept at the company.

Administrators will be able to draw up juristic deeds through which they may acquire, sell, rent, change or guarantee with goods of the social assets, whose value may be bigger than half of the accounted values of the society assets at the date of the juristic document, only with the assent of the general assembly.

*Joint stock limited liability companies.* The social asset of the joint stock limited liability companies cannot be smaller than 25 million ROL. Joint stock limited liability companies are regulated by the dispositions regarding joint stock companies, with the following exceptions: the administration of the society is entrusted upon one or more active partners; and active partners are responsible only to the society for payment of their shares.

*Joint stock companies.* The social asset of joint stock companies cannot be smaller than 2 million ROL and is divided in social parts, which cannot be smaller than 100,000 ROL. Social parts cannot be represented by negotiable bonds. In joint stock companies the number of partners cannot be bigger than 50. Decisions are taken in the general assembly. Each social part entitles its holder to a vote. The

administrators are obliged to call the general assembly at least once a year or as many times as necessary.

### **Dissolving, fusion and dividing of the trade companies.**

Any society is dissolved by:

- a) exceeding the time stipulated for the functioning of the society
- b) the impossibility of achieving the activity objectives of the society or at the achieving of the goal
- c) declaring a society void/null
- d) decision of the general assembly
- e) court decision issued at the request of any partner, for serious reasons, such as deep divide between associates, which lead to the improper functioning of the company
- f) bankruptcy
- g) other causes stipulated by law

Dissolving of societies must be recorded in the Register of Commerce and published in the Official Monitor of Romania. Fusion or dividing may be accomplished between societies with different forms. Fusion, or dividing, has effect the dissolving, without liquidation of the society, which ceases to exist and universal transmission of assets to the beneficiary society or societies, as it is at the date of fusion or division, in exchange for shares and social parts for the shareholders of the ceasing society and, if the case, of a certain amount of money, which cannot be more than 10% of the face value of shares, or attributed social parts.

Liquidation of trade companies is regulated by Law no. 64/1995 republished in the Official Monitor of Romania no. 608/13.12.1999 regarding the procedures for judicial reorganizing and bankruptcy. Creation of trade companies with foreign participation, in association with Romanian legal entities or persons, or with full foreign capital is regulated by provisions of Law no. 31/1990 and of Extraordinary Ordinances nos.31 and 92/1997 regarding the encouraging of direct investment in Romania.

Direct investment, according to the law implies participation in constituting or expanding enterprises, in any of the judicial forms stipulated by law; acquiring of shares or social parts in a trade company, except portfolio investments; setting up or expanding in Romania a branch of a foreign company.

In accordance with article 4 of Ordinance 92, investors benefit in Romania mainly from:



- a) the possibility to invest in any field of activity and in any judicial form stipulated by law
- b) equal opportunities for foreign and Romanian investors, resident or not in Romania
- c) guarantees against nationalization, expropriation or other equivalent measures
- d) customs and fiscal facilities
- e) assistance regarding procedures for administrative facilities
- f) the right to conversion in the currency of the investment of any sums in ROL resulting from the investment as well as transfer of currency in the country of origin
- g) the possibility of reimbursement for advertising costs from profit revenue

As it can be observed, Romania legislation regulating business environments is highly comprehensive. Any modification is made public through mass media: radio and television debates, newspaper reviews, interviews and other. Also, people desiring to develop a business have the right to consultancy for the Chambers of Commerce and Industry, from Centers for the Development of Small and Medium Enterprises in the territory.

Inasmuch as the problem of working abroad is concerned, it is to be mentioned that there are conventions between the Romanian Government and the governments of neighboring countries regarding access of labor force. The waiting period may depend on the duration of receiving approval from the employing economic agent.

## **Infrastructure**

The infrastructure of the region may be characterized as favorable, both as quantity and quality. Quantitatively, the criteria considered is the number of kilometers representing access ways, as well as their density, expressed in kilometers of road and/or railroads per 100 km<sup>2</sup> and 1000 km<sup>2</sup>, respectively. Qualitatively, the criterion considered is accessibility.

The Romanian territory included in the Carpathian Euroregion is crossed by a diversity of access ways including international (European) roads, and communal roads (with or without asphalt covering). The extremities of the region are in Saveni (Botosani County) in the East and Salonta (Bihor County) in the West. The two localities are connected by a network of 700 km of roads crossing a variety of forms of relief.

The railroad network is extremely important in the functioning of the communication system. As a particularity it is to be noted the fact that the Western part of the Euroregion (four counties) and its Eastern part (two counties) are connected by a railroad junction situated in Bistrita-Nasaud County, which is not part of the Euroregion. The structure of the network is rectangular, respectively a line that joins the extremities and a perpendicular axis oriented North-South, which connects the national railroad system to those of the neighboring countries.

There are four airports in the Romanian part of the Euroregion: Baia Mare, Satu Mare, Oradea and Suceava. The airport in Baia Mare has recently been modernized, the investment being supported entirely from public funds. In order to connect the area to the European circuit, in the near future, the airfield and tracks will be expanded, and this will allow direct flights between Baia Mare and European capital cities, and the use of larger airplanes.

The characteristic features of the Romanian infrastructure are presented in Table 1. It may be noticed that the longest road network appears in Bihor county – 2,491 km and Suceava County – 2,330, whereas the highest density appears in Salaj county - 36.7km/100 km<sup>2</sup>. The same counties hold the longest railroad networks Bihor - 474 km and Suceava - 449 km, the former having a density of 62.8 km/100 km<sup>2</sup>.

**Table 1:** Characteristics of Romanian communication networks in Carpathian Euroregion

No.	County	Public roads total (km)	Total national roads (km)	Density of roads km/100km <sup>2</sup>	% of total regional roads	% of roads in Romania
1	Bihor	2,491	412	33,0	22,49	3,42
2	Botoşani	1,824	412	36,6	16,47	2,50
3	Maramureş	1,501	309	23,8	13,55	2,06
4	Satu Mare	1,523	267	34,5	13,75	2,09
5	Sălaj	1,405	277	36,4	12,69	1,93
6	Suceava	2,330	483	27,2	21,04	3,19
Region		11,074	2,160	31,9	-	15,20
Romania		72,859	14,683	30,6	-	-

No.	County	Total railways in operation (km)	Density of railways km/1000km <sup>2</sup>	% of railways of region	% of Romanian railways	Airports (No.)
1	Bihor	474	62,8	26,51	4,16	1
2	Botoșani	159	31,9	8,89	1,39	
3	Maramureș	232	36,8	12,97	2,04	1
4	Satu Mare	298	67,5	16,66	2,62	1
5	Sălaj	176	45,5	9,84	1,55	
6	Suceava	449	52,5	25,11	3,94	1
Region		1,788	49,5	-	15,72	4
Romania		11,376	47,7	-	-	17

Access toward neighboring regions can be appreciated by considering the number of frontier access points: 4 for automobiles and 7 for trains. Appendix presents the list of the main investment projects, in Maramures, initiated by local government, investments currently in development in partnership with public or private companies.

## System of payment in Romania

### General legal considerations

Banking and the conditions regulating this activity in Romania are stipulated in Law no. 33/1991 regarding banking and by Law no. 34/1991 regarding the functioning and status of the National Bank of Romania. In conformity to these, in Romania only Banking societies can do financial operations to include issue and administration of payment instruments, as a common constituent of their activity.

There four institutions not regulated by Law no.33/1991 regarding banking that can offer payment services: the State Treasury, the Deposit House the Romanian Postal Service and the National Bank of Romania. The circulation of payment and debit instruments, on paper (bills of exchange, promissory notes, cheques and bills payable to order) and the discharging of financial duties are regulated by provisions

of the Civil Code and by specific laws and regulations. Law no. 66/1996 regarding the reorganization of the Deposit House in Romania as a joint-stock bank has defined the new structure and the new object of activity for the Deposit House.

### **Financial intermediaries that offer payment services**

The main providers of payment services are: the banking system, the National Bank of Romania and the State Treasury. Lately, the Romanian banking system has expanded, as a result of increasing demand for such services. In December 1999, the system included 31 banking societies (Romanian legal entities) and had 3618 branches (including those of the Deposit House) as well as 9 branches and 6 representatives of foreign banks. In Maramures operate at present 13 branches of various banking societies.

### **Means of payment**

*Cash payment.* The National Bank of Romania issues banknotes and coins that are accepted as legal currency in Romania. The Bank has its own system for creating and printing banknotes, for replacing the overused or deteriorated ones, for forgery detection and counterfeit. The National Bank of Romania ensures, through its 41 branches, circulation of banknotes and coins in order to balance quantitatively and qualitatively public demand of cash and supply of cash. Cash is the most commonly used payment instrument.

*Non-cash payment: Credit transfer.* The non-cash payment instrument most commonly used in Romania is the payment order. The legal base for these are the regulations of the National Bank of Romania from 1994 regarding transfer of credit, which stipulates that a credit transfer may be effected in Romania on paper or electronically. In Romania about 650,000 inter-bank payment orders are issued monthly on paper, the main users of credit transfer being economic agents.

The circuit of credit transfer is stipulated by special regulations which take into account the value of payment orders as follows: small value orders (below 500 million ROL) are processed through multilateral compensation, and those with values exceeding 500 million ROL are processed as gross basis. Both procedures ensure reimbursement of transactions through current accounts of banking societies (open at the National Bank of Romania), payments being made on certain pre-established dates, and information for clients regarding the due time for realization of credit transfers.

*Non-cash payment: Check.* Payment by check is regulated by Law no. 59/1934 (based on the Geneva Convention), the law that has been reapplied with minimal alteration since September 1994. All barred checks issued by or for legal entities or persons, clients of different banks, except checks issued by the National Bank of Romania (henceforward NBR), are processed through inter-bank multilateral compensation. Inter-bank circuits for checks, including deadlines for societies to deposit money for beneficiary customers are regulated by the NBR. The period necessary for a bank to credit the account of a beneficiary of a check is longer than for a payment order (2 – 4 days), due to the fact that checks are still considered, by banks to be quite unsafe payment instruments which require supplementary administrative costs to avoid fraud; these costs are determined by the operations to check availability of sums and authenticity of payment instruments. Present norms and regulations allow issuance of checks for cash operations, travel checks and circular checks.

*Non-cash payment: Bills of exchange and bills payable on order* (promissory notes). Banks may receive and process bills of exchange and bills payable on order as stipulated in Law no. 58/1934 regarding promissory notes (based on the Geneva Convention), law that has been reinstated since September 1994.

These two credit bonds which become payment instruments on date of payment are not used on a large scale at the moment by clients of banking societies, due to the absence of efficient financial infrastructure, meant to get public trust. On payment, both the bill of exchange and the bill of payment on order are processed as debit payment instruments and are reimbursed after presentation to a house for inter-bank compensation.

*Non-cash payment: Cards.* In Romania are used national and international credit cards. In March 1994 Romcard was founded. Romcard is a society dealing with the processing and authorizing of transactions based on international credit card using Visa International, Mastercard and Eurocard systems. Several Romanian banks joined for this purpose: the Romanian Commercial Bank, the Agricultural Bank, Ion Tiriac Commercial Bank and the Romanian Bank for Development. Romcard represents the linking entity between these banks and the international system for card usage, inside Visa International organization (based in London, for Europe).

The Romanian banks use two types of activities: take for payment international cards issued by foreign banks or institutions; and issue their own international cards, as stipulated in the agreements closed for this purpose. Any person or legal entity may demand a bank or issuing company to release a card, following a written request. The bank and the client sign an agreement in which the type of the card is

mentioned, the facilities granted for the user, the obligations of the user toward the bank, and so on. Once the user has the card, it can be used for: a) payment for goods or services at the institution that offers services or sells goods and takes the card as a payment instrument; b) getting cash from the bank or from ATMs. Receiving and owning a card presupposes the payment, from the owner, of a fee for issuance and an annual usage fee, generally as fixed amounts.

## **Telecommunications**

The only fix telephony operator in Romanian counties, members of the Carpathian Euroregion, is ROIMTELECOM trade company. Mobile telephony is represented by three companies, namely MobiFon for the CONNEX GSM system, Mobil Rom for the Dialog GSM system and Cosmorom, a relatively new company on the market.

## **The border and border policies**

### **The border with Hungary**

There are two counties at the border with Hungary, namely **Bihor** and **Satu Mare**, both members of the Carpathian Euroregion. For both counties agriculture plays an important role, taking up a significant part of the labor force. The creation of private agricultural enterprises is a slow process, due mostly to the lack of specific legislation to stimulate partnerships, but also to the lack of enterprising spirit on the side of the population who are not willing to take chances. Despite all these, Bihor and Satu Mare counties have the largest areas included in private agricultural partnerships of 20% and 11%, respectively, of their entire areas.

The two counties also have a more fertile land than any other Romanian county in the Euroregion. This allows them to get better crops with fewer expenses. The big grain crops in recent years (over 3.5 tons/hectare) justify their classification among the “grain counties” of the Romanian side of the Euroregion. Aside corn and grain, the two counties had, in 1999, the best meat and milk production, compared to the other four member counties.

The top most three representative industrial fields for each of the two counties, other than agriculture are - for Satu Mare: machine constructions, furniture and textile industry; for Bihor: leather, textile and furniture.

As a result of the restructuring process and privatization, unemployment rate has grown, although it remained under the national average, Unemployment rate was of 5.4% in Satu Mare in 1999, and of 5.1% in Bihor, compared to the national average which was of 10.4%. This constitutes one of the reasons why Romanian citizens, especially from the above-mentioned counties, request work permits in Hungary. Statistic reports show that more than half of the total number of work permits issued in Hungary is granted to Romanian citizens. Those who cannot obtain a work permit cross the border monthly, using tourist passports, and engage in illegal activities, in the “gray” or “black market” economy.

In order to help investors who would like to use the economic and human resource opportunities specific for the area, we suggest the following: 1) the increase of border check points and crossing to Hungary; the improvement of the border area infrastructure, in order to ensure better services in the fields of education and healthcare in particular; 2) the creation of stimulating conditions for encouraging entrepreneurial spirit. Indeed, it seems that frontier regions should benefit from a special policy regarding taxes and revenue, the possibility to take up credits with low interest rates, facilities offered to mixed companies and in general to companies that create jobs in the area. However, this supposes legal actions and initiative, which should consider all these aspects, specific for frontier regions. 3) Organizing meetings between frontier counties’ representatives, in order to draft common projects. All these measures should contribute to the leveling of differences existing between frontier regions, to their social and economic development, and last but not least, to better relationships between the two countries.

### **The border with the Ukraine**

In conformity to the convention drawn up between the governments of Romania and Ukraine, signed at Izmail, on March 25 1996, regarding simplified frontier crossing, at the Ukrainian border there are two functional check points of the Border Police - Cimpulung la Tisa and Valea Viselui, both situated in **Maramures** County. 74,626 persons crossed the border in 2000, using the two checkpoints.

In the present, passenger trains in the area do not run due to the floods of March 3-6, 2001, which have affected the infrastructure on Romanian soil as well as on Ukrainian soil. Repairs must be made to a bridge and to a portion of 70 m of the railroad on the route Cimpulung la Tisa - Teresva. Repairs can be made only on the Ukrainian side, because of the wide gauge tracks and the necessary equipment is in stock at the Ukrainian railroad company. The situation is similar on the route Valea Viselui (Romania) - Dilovoe (Ukraine), where repairs are also depending on the Ukrainian side.

The convention between Romania and Ukraine regarding simplified procedures for border crossing do not satisfy the needs of citizens in frontier counties for the following reasons: it limits unjustifiably the number of crossings to two per month; there is no stipulation regarding the situation of students taking classes on the territory of the other state; and it does not clarify the situation of mixed marriages insofar as issuance of simplified crossing documents is concerned.

Certain steps must be taken in order to clarify the present situations, by both governments, so that to modify and complete the present Convention. At present, the Historical Bridge over Tisa is being under construction. The bridge is expected to be completed at the end of July 2001. Due to the fact that there are only two operational check points in Maramures on the border with Ukraine, it is necessary that a new check point for international traffic be open, thus creating a more dynamic social economic perspective for the population in the area as well as for businessmen. The transformation of Halmeu checkpoint into an international crossing for travelers as well as for goods (as it is in the present) would be also beneficial. Therefore, this paper strongly supports the above idea. Moreover, two regions in Maramures have been declared underprivileged areas as stipulated in the Extraordinary Ordinance of the Romanian Government no.24/1998 approved and modified by Law no.20/ 15.01.1999 published in the Official Monitor no. 12/1999. The two regions are the **Baia Mare** region with an area of 75,225 hectares, and **Viseu-Borsa** region, with an area of 86,718 hectares.

In accordance to article five of the above mentioned law, economic agents benefit from the following facilities for investments:

- a) Exemption from payment for: customs taxes and VAT for machines, plant stocks, gears, equipment, means of transport, and other redeemable goods imported for investment in the region; VAT for machines, plant stocks, gears, equipment, means of transport, and other redeemable goods produced in Romania for investment in the region.
- b) Repayment of customs duties for raw materials, spare parts and/or imported components needed for own production in the region
- c) Exemption from profit revenue as long as the status of underprivileged area is maintained
- d) Exemption from taxes perceived for changing of destination or removal from the agricultural circuit of terrain for investment
- e) Priority for money from the Special Fund for Development at the disposal of the Government for stimulating export of products and industrial services, if the case; guarantee for external credits in limits set annually by the Ministry of Finance; financing for special programs, approved by Government decision; and financing for special projects coming from societies by



participation of the state to the social assets. The facilities and financing mentioned in e) are established by government decision.

In accordance to article nine of Law no. 20, facilities are granted for commercial companies, Romanian legal entities with assets in majority private, as well as for private investors and family partnerships, based in the area and authorized in conformity to the Law -decree no. 54/1990, if new jobs for the unemployed labor force are created, or for family members of the unemployed.

It is to be mentioned that both Baia Mare region and Viseu Borsa have been declared underprivileged regions for ten years with the possibility of extension of the period. Interest fields for investment are as follows: Agricultural and zoo technical; Production of goods (except alcohol); Services (except restaurants and other units outside tourist investment); Commerce (except for goods produced as result of activities elsewhere than in the area); and Environment protection and rebuilding of natural sites.

In Maramures function at present over 500 mixed companies of which 159 in cooperation with German companies, 125 with Hungarian companies, 99 with Italian companies, 64 with Austrian companies, 30 with Turkish companies, 29 with American companies, 23 with French companies. As can be noted, Hungary is the second country participating with companies in Maramures and number six as invested capital. In comparison, Ukraine is the 18th as participation and 36th as capital investment.

Given this context, it is considered that the future of frontier regions lies in the proper usage of their human and economic potential, by intensively developing relationships between government authorities, the military, as well as civil organizations. It is also necessary to organize common programs in the fields of education culture and tourism. Several meetings need to take place between Romanian and Hungarian and/or Ukrainian investors, which should, in time, become permanent. Last, but not least, legislative measures are needed to specify facilities for frontier regions, measures to create new jobs, better international traffic of goods and persons, and thus generating a new economic boost.

## **Corruption**

The influence of private interest over state decision constitutes a natural characteristic for all political systems. What differentiates the “seizure” of state as a form of corruption, from all conventional forms of political influence such as lobbying, are the mechanisms through which private interests interact with the state.

Seizure takes place by supplying earnings to civil servants, using informal channels, opaque and preferential.

Seizure may be favored by the vague precision of the line between political interest and business interest of civil servants, a specific element for many countries experiencing economic transition. In all its forms, tendentious influence over civil servants in order to obtain illicit and illegitimate advantages reduces access of competitive groups and is harmful for political interest.

There are several forms of seizure. Distinctions can be made between several types of institutions subjected to influences - the legal branch, the executive branch judicial institutions or government agencies. The benefits are made up of advantages for a reduced number of individuals, companies and sectors. These benefits are obtained as a consequence of the distortion of the legal frame, having enormous losses for the society in general. These influences are oriented towards areas of high economic concentration where social interests are but weakly represented and formal channels of political influence are poorly developed.

Unlike state seizure which implies advantages for individuals or groups resulting from the very way of drafting of laws, decrees and regulations, administrative corruption consists of imposition of irregularities in applying existing laws and regulations. The classical example of administrative corruption is that of the shop owner who has to bribe a never-ending line of inspectors so that they overlook certain irregularities (minor or major). Administrative corruption also includes the so-called “grease payments” - bribery to get authorizations, to “ease” customs procedures, to win public auctions, or to obtain exclusivity for supplying goods or services. There are also instances when civil servants redirect public funds towards other destination, or for their own benefit. At the origin of these forms of corruption is the availability of civil servants to apply laws in a discriminatory way.

Both seizure and administrative corruption can have different degree of expansion. In spite of the importance of this issue there are few data available regarding existent forms of corruption. The present paper used information contained in the Business Environment and Enterprise Performance Survey (B.E.E.P.S.) report, drafted at the request of World Bank and the European Bank for Reconstruction and Development. The study identified a number of specific activities which fall under the incidence of seizure, namely selling of parliamentary votes to uphold private interest, selling of civil and penal decisions to uphold the same purpose, defective manipulation of the Central Bank funds; illegal contribution from companies in the form of sponsorship for political parties. Companies were

asked to evaluate the direct impact of each of these activities on their business, whether or not these companies were involved in such activities. Thus, the level of seizure is measured according to the proportion of companies directly affected by such activities rather than the sheer number of companies involved in activities of the kind. Table 2 shows the percentage of companies affected by various forms of seizure in the member states of the Carpathian Euroregion.

**Table 2:** Share of Firms Affected by Different Forms of State Capture

Country	Parliamentary Legislation	Presidential Decrees	Central Bank	Criminal Courts	Commercial Courts	Political Party Finance
Hungary	12	7	8	5	5	4
Poland	13	10	6	12	18	10
Romania	22	20	26	14	17	27
Slovak Rep.	20	12	37	29	25	20
Ukraine	44	37	37	21	26	29

Source: Hellman, Jones and Kaufmann (2000)

Obviously, selling of parliamentary votes and defective manipulation of central bank funds are perceived as having the most significant and direct impact on companies. According to data in the B.E.E.P.S. report, companies were requested to evaluate the share of their annual income, which are destined for unofficial payments to influence legislation (administrative corruption). Processing of data shows that in countries of Central and Eastern Europe, the average unofficial payment represents 2.2% of their annual income. On countries, at the level of the Carpathian Euroregion the situation is as follows: Ukraine - over 4%; Romania approximately 3.2%; Poland - approx. 1.6; Hungary approx. 1.8%, Slovakia approx.2.5%.

The study also mentions that the overall corruption in Central and Eastern Europe takes up 13% of the profits generate in the region. However, these estimates must be treated cautiously. They show rather an image of the burden carried by companies in a country in transition.

The most often forms of administrative corruption, according to the study are unofficial payments for authorization and permits, payments for tax exemption; payments for winning public auctions, bribes for police and customs officials. Romania has the legal provisions to prevent situations in which MP' s or other public figures

can/must take decisions in a conflict of interests. Upon beginning and termination of mandate, MP' s have to declare their assets. Also, according to the legislation, MP' s and, important public officials, members of the executive, civil servants in general may not hold positions in any administrative board of private or public companies.

The transition process from socialism to market economy constitutes a unique historical process. Never before have the respective countries gone through simultaneous and radical changes of their political and economical institutions. In this framework corruption has been favored by redefining of the legislative framework, by adopting an enormous body of laws and regulations; the immense redistribution of wealth from state to the private; and absence of institutions to keep under control abuse and corruption acts.

It has been demonstrated, as well, that countries rich in natural resources are subjected more to corruption than poor countries. Thus, one can state that it is not merely enough to have an anti-corruption strategy. One must also apply this, in each country. However, this supposes, first, political will, active implication of the civil society and the continuing improvement of the existent legal framework.

## **Trade regime in relation with the Slovak entry to the European Union**

It can be noted from Table 3 that commercial exchange between Romania and Slovakia have been constantly growing, except for the year 1999, although the real economic potential of the two countries is not by far expressed by the shown level of exchange. Slovakia represents number 27 in the total volume of Romanian commercial exchange. The main exported goods are textiles, 31.7%, animal oils, 10.3%, and furniture, 11.3%. As for imported goods, metal raw materials represent 21.4%, chemical products 13.22% and mineral products 4.7%

**Table 3:** The evolution of the trade exchange with Slovakia (in \$ million).

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>1-11.2000</b>
Turnover	64,7	89,2	96,7	128,0	99,6	129,0
Export	16,1	30,0	24,6	21,3	11,9	23,7
Inport	48,6	59,2	72,2	106,7	87,7	105,3
Net export	-32,5	-29,2	-47,6	-85,4	76,2	-81,6

In Romania operate now 49 mixed companies with total social assets of \$359,000, especially in the field of constructions. In the present the region goes through the third stage in the economic evolution of the European integration process: enlargement of the EU by accepting 10 former socialist countries, as well as countries in South Europe. All former socialist countries that have started adhering negotiations show great economic discrepancy if compared to members of the EU (see Table 4).

Compared to Portugal, economic level of former socialist countries are between 12.8% (Romania) and 47.6% (Czech Republic), but compared to Luxembourg, relative levels are between 3.1% (Romania) and 11.6% (Czech Republic). According to calculations, Slovakia stands between these two levels. Economic discrepancy must, therefore, be seriously tampered, so that integration of candidate countries should generate benefic effects both for each country and the EU. This objective can also be achieved by intensifying economic exchange between the respective countries and by using their comparative advantages.

**Table 4:** Level of National Gross Product per capita in former socialist countries adhering to the EU (%)

Relative levels compared to:	Portugal	Luxembourg
Czech Republic	47,6	11,6
Poland	32,6	8,0
Romania	12,8	3,1
Slovak Republic	33,4	8,2
Hungary	41,0	10,0

Source: calculated after World Bank Atlas, 1999

## Appendix

Public – Private Partnership Draft in the County of Maramureş

1. Bridge across Tisa river (road linkage between Romania, Ukraine and Baltic countries);
2. Road Tunnel under Gutâi Mountain;
3. Extension and strengthening of the flight strip, including flight marks to the Baia Mare Airport
4. Runcu water storing lake and Firiza hydropower station;
5. Water supply in the town of Baia Sprie (over 17,000 inhabitants);
6. Water supply network and sewerage system in the town of Seini (over 10,000 inhabitants);
7. Extension of sewerage network and wastewater treatment in the town of Târgu Lăpuş (over 16,000 inhabitants);
8. Ecological solid waste collection and disposal system in the zone of Borşa and Vişeu de Sus towns (over 50,000 inhabitants);
9. Natural gas supply in the Northern zone of County of Maramureş;
10. Natural gas supply in the Codru zone;
11. Development of the Borşa tourist zone.

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# Árpád Horánszky

## *Possibilities and Barriers of Cross Border Businesses in Hungary*

### **Introduction**

The role of regions is improving in all over Europe and its efficiency sometimes goes over the intergovernmental initiatives. Real success-oriented cooperation has to be based on bottom-up approach, but there is no doubt even on a short term that it could not be realized without practical, well thought-out support of national governments.

Unfortunately in former communist countries, governments' intention for the decentralization is often appear only in phrases. Current central political powers try to expand and establish their control over more and more during their ruling period for the fear of disappearing or being lost in rapidly changing situations of transition. Problems of structural changing and adaptation to the market economy usually evoke "direct adjustments" meanwhile the need of creation suitable legal and financial background for international cooperation in the civil and even in the business sector is not always recognized by them.

Central leading interests are always ready – sometimes make the most of nationalism getting to the surface - to postpone delegating part of their power and influence to the regional or local level, in spite of strict political requirements from the European Union. From that EU, which all of the Carpathian countries wishing to join to, accepting and fulfilling all of the requirements for that. And in spite of the undeniable need to reserve common reach and traditional cultural treasures of the region in the "unstoppable storm" of globalization.

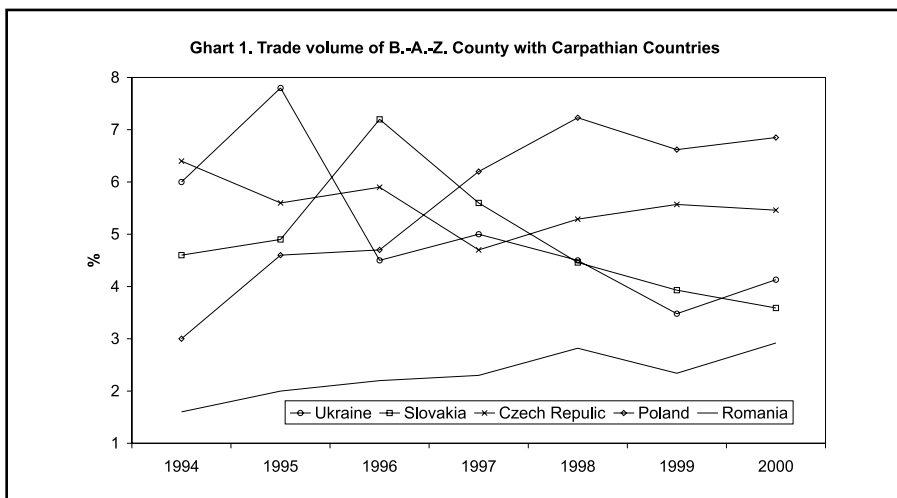
Last but not least, in spite of the opportunities to improve competitiveness of the region on the European and global market capitalizing existing competitive advantages of the area. Let me, as a representative of subregion's economy, to approach the question from the businesses' point of view. I do that because I have information and experiences from that sector, and because the volume and level of cross border business contacts are good indicators of regional cohesion.

So what does business need to find its way and to feel good to realize cross border co-operations on a long term? Market, Clear and stable legal background, Infrastructure, Appropriate labor force, Capital and Business support organizations.



## Market

The Carpathian region (Poland, Czech Republic, Slovakia, Ukraine, Hungary and Romania) form a geographically well-defined market with 136 millions of inhabitants and more or less common historical and cultural background. The central location of the region gives a good chance to play role of the bridge between west and east and even between north and south of Europe improving the attractiveness of this market for the potential investors. There are much more potential in that market than it is utilized. Backing up this statement let me show some figures on the economical connections of Borsod-Abaúj-Zemplén County with the others of the Carpathian region. (see Annex)



If you look at the trend of business volume in BAZ County - Slovak relation on the Chart 1 and the fact that Slovakia is only the 9-th most important partner of our county, it is hardly to believe that Kosice is only 83 km far from Miskolc (closer than Budapest).

In spite of the lots of advantages providing by the neighboring countries our achievements are not really good and it is worth finding the causes. I try to identify some below: The purchasing power of the different countries shows wide variety. It makes difficult to implement one marketing strategy for the market as a whole. From the formal decades still remained the “bad habit” of poor quality. People easily think “for them, even the poor quality products will be good enough”. But of course, the concurrency from well developed countries are already competing on the market without “bad habits” and the customers prefer their products.

## **Clear and stable legal background and economic regulatory system**

It is an elementary need for the business to work in a transparent and efficient legal framework. If the regulation is too complicated and changing frequently, entrepreneurs cannot make plans for timing and costing. Sometimes you can not know forward if your goods will have to stay at the border for 2 hours or it will be “frozen” for days. That could increase the risk of cross border businesses so much, that the entrepreneurs prefer to choose other business with lower profitability but even lower and calculable risk. Over-bureaucratized systems cause waste of time, money and give free way to corruption.

Most of the complaints from our businessmen are about the problem of the officers who have too much power in the process without control and they can bleed their “customers” as they want. It is very painful if the regulations or the practice makes difference between clients from different countries. For example, only foreign trucks must be washed (fertilizing) and charged, of course, entering Romania. The Romanian owned vehicles could cross the border without that process. Most probably there are several other examples day by day on every side.

The legal protection of patents, trademarks and brands are not strict enough. In some countries even the protection of the investments is missing. In others, requirements for supporting working capital investments can hardly be fulfilled by foreign SMEs. Privatization, as a possible way to set-up new common businesses, sometimes is too slow, and those state owned firms allowed to be privatized often do not have the appropriate facilities (equipments etc.) and infrastructures to be competitive on the European or global market.

## **Infrastructure**

Our economic performance cannot reach the European level without high-level infrastructure! Due to the lack of sufficient border station, there are close neighboring villages, where you have to travel hours to arrive from one to the other. In spite of the significant improvement in number and capacity of the border stations in the near past, till transports or persons have to wait 6-7 hours to pass over the frontier towards Ukraine, our neighbors seem to be as far as the Mediterranean or Benelux countries from us.

To become able to play the role of “bridge” we need other elements of a complex logistic system as highway networks, logistic centers, airports and seaports etc. If the region wants to compete with the large commercial centers in North and West Europe, has to be in possession of infrastructure and supplementary services for transportation, at least on the same level and quality then they have. Crucial point is the highway system. From one side, by the international experiences, the money does not go further then can be reached in 1-1.5 hour from an international airport. From the other side, the highways provide not only cost effective and flexible transportation for the business but connect regions and bring people closer to each other.

I believe that those countries, which are able to set-up real complex, well organized international logistic centers in the Carpathian region, are having big advantage in the competition for foreign investors.

Unfortunately till nowadays the banking systems' level is not homogenous in our region. The lack of appropriate bank services like fast and secure remittance, letter of credit and bank information etc. is a huge barrier of international co-operations. By the expansion of multinational banks in this region, this problem is step-by-step decreasing. The same ownership assure same systems and processes in banks on the different side of borders automatically making easier and simpler international operations.

## **Appropriate labor force**

It is a widely accepted fact that the people of central and eastern European countries, because of strong education system, are generally well-educated and trained workers.

The changing of economic structure and the process of adaptation to the market economy necessarily went together with a high rate of unemployment in the Carpathian area as well. These two facts mean there is available free labor force for set-up and develop new production or services at a relatively low labor cost. But this competitive advantage could be disappearing soon by closing up to the Western European countries, and even by - what is much worse – the “brain drawing”. Until the gap between the level of life in more developed and in our countries is so big, the mobile, young and well-educated people are ready to move towards the west building their career under better circumstances. There is big a demand for them.

There is not too much migration inside the Carpathian region. However the legal framework exists for that, but for example in B-A-Z County the rate of

unemployment reach the 20% so it is very tough to find a job even for local people there. But we can find already precedent for firms in Western Hungary hire workers from Slovakia and even from Poland.

Most probably in the future the migration inside the region will increase after the joining to the European Union of the countries of “first wave”.

## **Capital**

The under-capitalization of enterprises in our region is unfortunately general problem. First of all among the SMEs. That creates attractive possibilities for capital investments. Naturally SMEs rarely are able to make investments abroad, but there are examples when they make joint ventures or buy small catering establishments. In these cases those entrepreneurs have deep relationship (often familiar) with local people, minimizing the risks of the investments on that way.

The interest for investment possibilities in neighboring countries starts increasing from large firms by the experience of our Chamber. It is still not significant but if the trend will keep continue Hungarian participation would be perceptible in the economy of mainly the neighboring countries in four-five years.

Foreign investors can apply for grants and subsidies form national our regional recourses for their working capital investments implementing in Hungary with the same chance like Hungarian entrepreneurs. In B-A-Z County only investors from Western European, American and Asian companies applied for and got support for that purpose.

## **Business support organizations**

As different the countries of the Carpathian region are as variety shows conditions of business support organization. Even inside one country there are different institutions with totally different background, facilities and strategies. Some are supported and controlled by governments; others are more independent enforced to market their services to supplement their short income.

In the case of chambers of commerce and industry as real business representative organizations can be found in every country in the region, but all have different legal background (and those are changing too often also), aim and

possibility. But in spite of the difficulties the chambers have very good chance to implement common cross border actions promoting and supporting their enterprises. The Chamber of Commerce and Industry for B.-A.-Z. County with five other CCIs from Slovakia, Romania, Ukraine and Poland made an initiative to co-operate in planning and implement common projects for improving their services offered to the business sector.

We have met with some main obstacles during preparation of projects:

Lack of common language. Unfortunately the entrepreneurs rarely speak foreign languages like English, German or even in Russian, and the Carpathian region is a real multilingual area!

Getting support from EU. The European Union makes running the Phare program to support this area and prepare that to the joining to the EU. But Ukraine is not among the Phare countries.

The diversity of chambers in the different countries gives some difficulties. Some chambers have 100-200 members and only 1-2 full time employee; others have 2200 members with 20 employees.

What do the chambers offer for the enterprises supporting them in cross border operations? Business services (see Annexed Box 1.) and the background of international network of Chambers of Commerce and Industry, what create chance to give real added valued services.

# Appendix

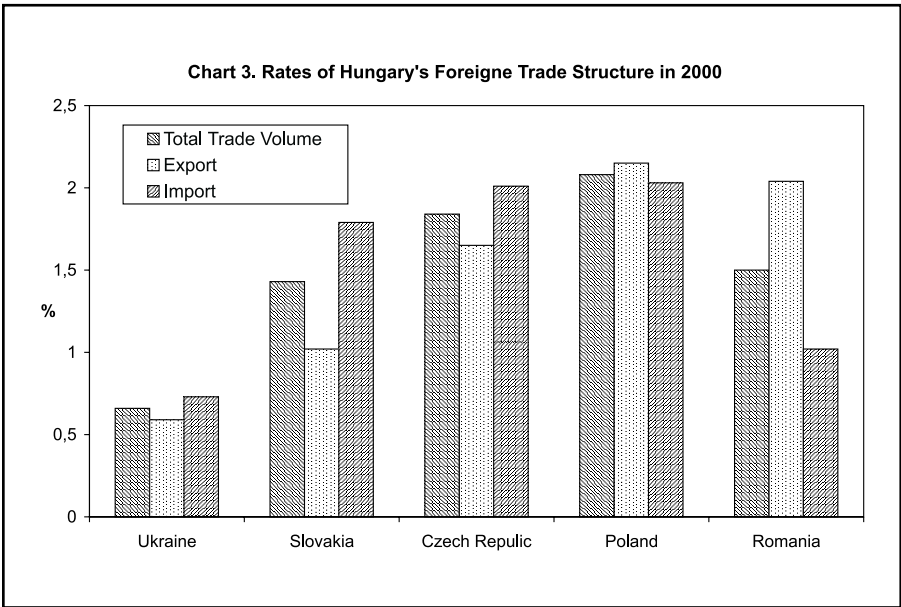
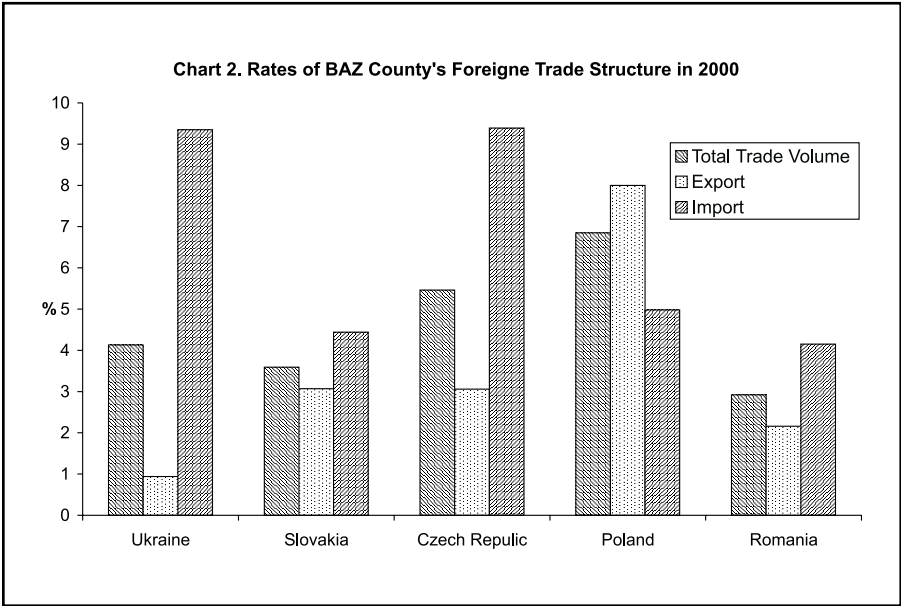


Table 1: Main products and rates in BAZ-Polish relation in 2000

<b>Export (71,4 MUSD)</b>	<b>%</b>	<b>Import (27,28 MUSD)</b>	<b>%</b>
Plastic products	77.60	Steel and Metal	71.70
Chemical products	6.40	Components of Electronical Goods	5.70
Mineral Fuel	3.20	Machines and Elements	4.30
Non-organic Chemicals	2.80	Furniture	2.10
Steel and Metal	2.60	Aluminium and its products	1.80
Organic Chemicals	1.60	Organic Chemicals	1.40
Meat	1.30	Paper products	1.20
Machines and Elements	1.00	Non-organic Chemicals	1.10
Furniture	0.60	Vegetables, Fruits	1.10
Beverages	0.60	Ceramic products	1.08
Others	0.30	Others	8.52

Table 2: Main products and rates in BAZ-Czech relation in 2000

<b>Export (27,3 MUSD)</b>	<b>%</b>	<b>Import (51,4 MUSD)</b>	<b>%</b>
Plastic products	48.10	Organic Chemicals	62.60
Non-organic Chemicals	24.40	Steel and Metal	13.10
Steel and Metal	7.80	Machines and Elements	9.10
Metal products	4.10	Mineral Fuel	4.80
Aluminium and its products	3.00	Metal products	2.70
Chemical products	2.20	Vehicle elements	2.40
Machines and Elements	2.10	Paper products	1.00
Furniture	1.70	Plastic products	0.67
Organic Chemicals	1.40	Glass products	0.63
Technical Textile	1.00	Ceramic products	0.49
Others	4.20	Others	2.51

Table 3: Main products and rates in BAZ-Ukrainian relation in 2000

<b>Export (8,38 MUSD)</b>	<b>%</b>	<b>Import (51,4 MUSD)</b>	<b>%</b>
Plastic products	76.70	Organic Chemicals	67.90
Machines and Elements	6.80	Steel and Metal	20.70
Grains	6.10	Mineral Fuel	6.10
Aluminium and its products	4.10	Wood	2.60
Synthetic filamen	0.90	Components of Electronical Goods	1.10
Vehicle elements	0.70	Aluminium and its products	0.50
Steel products	0.60	Metal products	0.30
Metal products	0.60	Vehicle elements	0.15
Coatings	0.50	Fruits	0.15
Furniture	0.40	Railway vehicles	0.08
Others	2.60	Others	0.42

Table 4: Main products and rates in BAZ-Slovakian relation in 2000

<b>Export (27,48 MUSD)</b>	<b>%</b>	<b>Import (24,3 MUSD)</b>	<b>%</b>
Plastic products	76.70	Metal and Steel	30.50
Machines and Elements	6.80	Wood	23.40
Metal and Steel	6.10	Metal products	6.60
Non-organic Chemicals	4.10	Machines and Elements	5.70
Steel products	0.90	Plastic products	4.80
Vegetables-Fruits product	0.70	Mineral Fuel	4.50
Meat	0.60	Paper products	3.80
Clothes	0.60	Aluminium and its products	3.00
Animals	0.50	Proteins	2.90
Vehicle elements	0.40	Organic Chemicals	2.50
Others	2.60	Others	12.30



Table 5: Main products and rates in BAZ-Romanian relation in 2000

<b>Export (19,3 MUSD)</b>	<b>%</b>	<b>Import (24,3 MUSD)</b>	<b>%</b>
Plastic products	36.90	Organic Chemicals	20.30
Animals	16.10	Cement	19.80
Non-organic Chemicals	9.10	Non-organic Chemicals	18.20
Mineral Fuel	7.90	Metal and Steel	16.20
Steel products	6.90	Components of Electronical Goods	9.00
Tobacco	3.00	Wood	6.10
Metal and Steel	2.30	Metal products	3.10
Components of Electronic Goods	2.20	Plastic products	2.60
Meat	1.80	Machines and Elements	0.96
Non-woven Textiles	1.70	Tobacco and Substitutes	0.90
Others	12.10	Others	2.84

**Box 1. Business services offered by Chambers**

Legal counseling (consultation in concrete cases, information on legal provisions)

Business advisory services (foundation of enterprises, business management, protection of industrial rights, environmental management, quality management, IT, e-commerce etc.)

Forwarding Hungarian and foreign business offers

Partner research in Hungary and abroad

Preparation of domestic and foreign lists of addresses

Business library (domestic and foreign trade books, directories, papers, gazettes etc.)

Sale of publications

Organizing business meetings, participation and/or visit fairs in Hungary or abroad

Authentication of documents

Organizing management, entrepreneur and professional trainings

**Slawomir Rębisz**

***Prospects for economic trans-border co-operation within the Carpathian Euroregion from the Polish perspective***

**Introduction**

In this paper I will present results of my research in the first part<sup>1</sup> and evidence of international co-operation of the Podkarpackie Province in the second part.

Since late 1980s Europe has been shaping its future in a new way. The political and economic changes considerably influenced the notion of European integration and international co-operation. The end of Cold War was a necessity for European international society to build a new order that would enable creation of the atmosphere of mutual trust, ensure the feeling of safety, stabilization, development of democracy and international relations including the development of various forms of cross-border and interregional co-operation.<sup>2</sup>

The appearance of a new geopolitical division of Europe in the early 1990s gave the societies of Central Europe countries chance to shape their international relations in accordance with their needs and developmental profit. The acceptance by these countries of the standards of international affairs development binding in the “democratic countries” provided the ground for fast and infrequently quite unrestrained development of social bonds and contacts between communities living in the borderland areas. These tendencies constitute an element of much broader process of European integration, regionalization and cross-border co-operation. They acquire a unique character when country borders divide such areas. Divided in an unnatural way local communities start looking for forms of co-operation with the people on the other side of the border. It infrequently happens that the bonds to the neighboring communities are stronger than the bonds to the country of belonging. It gives rise to the situation when the borderland areas play the role of bridges between

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<sup>1</sup> Data presented in the paper comes from research project "The Needs and Possibilities for Cross-Border Co-operation within the Carpathian Euroregion" RSS No: 66/1999. This project used research concept of Prof. Marian Malikowski on data from 1999-2000.

<sup>2</sup> Compare: *Elementy przeobrazen europejskich*, ed. by Przewlocki J., Katowice 1992.

the communities providing the possibility for the development of various forms of co-operation between these areas.<sup>3</sup>

Still advancing process of globalization is responsible for the fact that more and more often country borders cease to function as barriers in economic development and are no obstacles in conducting economic activity. In commonly accepted international standards of legal arrangements a frontier can resolve itself to a specific filter which works within the frames of given political, institutional and economic systems. In such a situation borderlands, which are synonymous with peripheral and neglected areas become the land perceived as attractive by potential investors. Both the Figures informing about the increase in the number of newly registered firms, the extent of investments, dynamic development of the private sector and actions undertaken to support the development of these areas<sup>4</sup> by various extra-governmental institutions seem to prove it.

One of the actions aimed at creation of solid bases for cross-border co-operation is the integration of borderlands within the framework of Euro regional structures called also **Euro regions**. Euroregion is defined to be a geographically specified land including borderlands of two or more countries whose local communities undertake co-operation at various levels and in various fields. Therefore the development of cross-border co-operation is on one hand an essential element of actions aimed at improving the standards of living in these areas (these areas are peripheral to the centers of their countries, least developed and the last to obtain the profit from the communities created by order of superior authority) and on the other hand it contributes to the mutual acquaintance, elimination of stereotypes and antagonisms as well as to the improvement of the partner forms of interethnic relations.

The basic goals of trans-border co-operation are always the same:

- a) Easing tensions and assisting in developing friendly relations between communities of different nationalities, ethnic origin and religion;
- b) Improving living standard of border region communities by supporting their regional development with the help of co-operation with border regions of other countries.

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<sup>3</sup> Compare: Melandowski M., Ratajczak M. (1998) Euroregiony - pierwszy krok do integracji europejskiej, *Alta* 2, Wrocław, p.7, also in: *Building a New Europe. Trans-frontier Co-operation in Central Europe*, ed. by Vasil Hudak, Krosno 1996.

<sup>4</sup> Rebisz S. (1998), *Zagraniczne formy pomocy na obszarach współpracy euroregionalnej*, [in:] *Rynek a rozwój społeczny*, ed. by S. Partycki, Lublin. p.436.

The trans-border co-operation can then facilitate both social-economic development of border regions, by providing new possibilities for these far and less developed lands, and can introduce a co-operation spirit to border communities by interpersonal contacts, which constitute the base of any development and contribute to establishing friendly relations between the whole nations.

## **Estimation and perspective of economic cooperation within the Carpathian Euroregion in the opinion of its inhabitants**

Results of transformation process, obtained so far, such as liberalization of border and customs regulations, are very important factors generating development of the co-operation. This has led to international revival of border areas. Cross-border co-operation, number of contacts on self-government and local authorities level, has increased and include economy, culture, environment protection, tourism, politics and other fields.

One should notice that euro-regions' activity is only a fragment of extensive co-operation front in Europe, which is transforming industrial society into information society in accelerated motion. Euro-regions are formal structure of cross-border co-operation based on agreement between local and regional level authorities, and, in some cases, between economic and social units. Initiated in 1990s, cross-border co-operation in this part of Europe is a peculiar experimental area, where post-communist societies learn principles of multilateral co-operation and acquire skills to reconcile individual and group interest with public interest, based on jointly reached compromise.<sup>5</sup> "Each joint activity with aim to strengthen and further develop neighboring contacts between societies and territorial authorities" is conducive to this situation.<sup>6</sup>

Short tradition of Euro regional co-operation in Central and Eastern Europe in comparison with Western Europe Euro-regions, cultural differences, which has left stamp on people's awareness, economical, area and population asymmetry on either side of borders as well as diversity owned to earlier relations between neighboring

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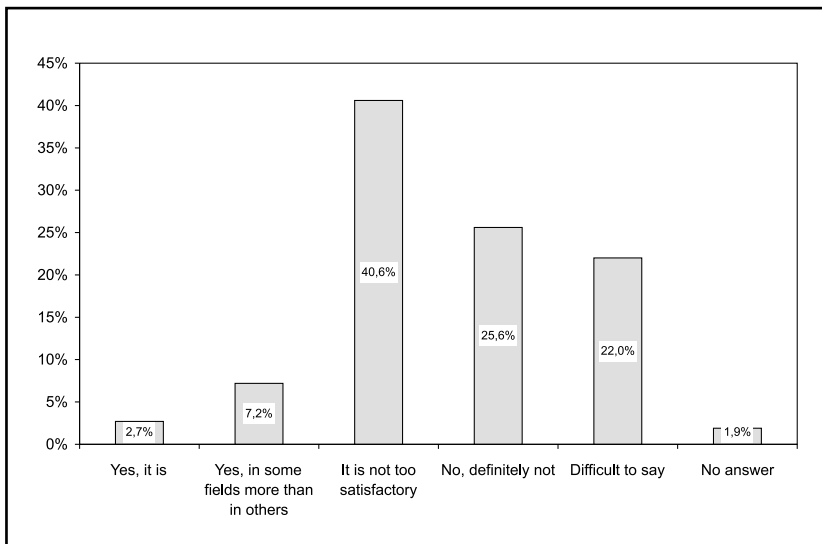
<sup>5</sup> Compare: Malendowski W., Szczepaniak M. (2000). Rola Euroregionow w procesie integracji europejskiej, [in:] Euroregiony - mosty do Europy bez granic, ed. by Malendowski W., Szczepaniak M., Warszawa, pp., 10 -12., also in: Przybyla Z., Uwarunkowania wspolpracy spoleczno-gospodarczej regionow przygranicznych, [in:] Studia regionalne. Prace naukowe AE we Wroclawiu 1992, Nr 620.

<sup>6</sup> Europejska Konwencja Ramowa o Wspolpracy Transgranicznej miedzy Wspolnotami i Wladzami Terytorialnymi (Madryt, 21 maja 1980 r.), art.2.

nations, has influenced the quality of Carpathian Euroregion functioning. In turn, this has influenced social perception and acceptance of cross-border co-operation in this region.<sup>7</sup>

Eight years of existence of Carpathian Euroregion authorize to evaluate so far cross-border co-operation in the region. Respondents had to define, among other things, the co-operation between countries-members of Euroregion and if the co-operation is advantageous or not to all countries.<sup>8</sup>

### Opinion of respondents about cross-border co-operation so far within the Carpathian Euroregion



In order to define Euroregion inhabitants' opinion about so far cross-border co-operation, several questions on this topic has been included in the research

<sup>7</sup> Compare: Eberhardt P., Problematyka tzw. euroregionow na wschodnim pograniczu Polski. [in:] Wezlowe problemy wspolpracy przygranicznej. Podstawy rozwoju zachodnich i wschodnich obszarow przygranicznych Polski, ed. by Eberhardt P., Miroso K., Biuletyn Nr 5, IG i PZ PAN, Warszawa, sierpien 1994.

<sup>8</sup> The research concentrated on three categories of Carpathian Euroregion inhabitants. The research was carried out among 750 persons, 150 from each country: 50 representatives of economy sector (private and state entrepreneurs), Local elite - 50 and Students - 50.

questionnaire. One of them was: **What is your opinion about so far co-operation between institutions, organizations, economic units and population of Carpathian Euroregion?** Respondents could choose from the following answers: it is definitely sufficient, it is rather sufficient, it is rather not sufficient, it is definitely not sufficient, difficult to say. Figure 1 shows distribution of answers to this question.

The figure shows that inhabitants of our region **evaluate Euroregion co-operation as not sufficient**. High percentage of respondents (almost 67%) answered: rather not sufficient and definitely not sufficient. High percentage (22%) of answers: difficult to say, can be explain by the fact that among all respondents as much as 224 persons have never heard of Euroregion (29.1%) and they know nothing or almost nothing of such a regional co-operation in this part of Europe.

Table 1: Assessment of the current cross-border co-operation. Is it sufficient? (data in %)

	<b>Poland N=153</b>	<b>Slovakia N=151</b>	<b>Hungary N=154</b>	<b>Romania N=156</b>	<b>Ukraine N=155</b>	<b>TOTAL N=769</b>
it is definitely sufficient	2.0	-	1.9	4.5	5.2	2.7
it is rather sufficient	5.2	10.6	1.9	13.5	4.5	7.2
it is rather not sufficient	38.6	44.4	32.5	37.2	50.3	40.6
it is definitely not sufficient	29.4	9.9	39.0	23.1	26.4	25.6
difficult to say	24.8	29.8	22.1	21.1	12.3	22.0
No answer	-	5.3	2.6	0.6	1.3	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Distribution of answers to question about evaluation of so far cross-border co-operation, taking into consideration independent variable – **country**, is similar in all countries: it is rather not sufficient and definitely not sufficient. We can conclude that in every part of Euroregion, the problem is perceived alike. Over half of respondents evaluate the co-operation as negative, not sufficient (66% of respondents indicated those two answers). In Slovakia this percentage is a little lower (54.3% of respondents indicated both answers), but still quite significant.

According to respondent category, elite and entrepreneurs evaluate the co-operation negatively. Distribution of answers (in percentage):

1. Almost 76% of elite thinks the co-operation is not sufficient, and not much over 8% define it as good;

2. About 71% of entrepreneurs have similar opinion, only 6.3% accept existing co-operation;
3. Over half of students define the co-operation as not sufficient. But 15% believe that existing co-operation is sufficient.

Taking into consideration main aims of Interregional Carpathian Euroregion Association, resulting from the Statute, which define the scope of cross-border co-operation on its area, respondents evaluated so far co-operation in economy very poorly. Generally, over 36% of respondents evaluate the co-operation in **economy** as weak or very weak. Only 14% evaluate it as good or very good. 28.5% of respondents mark it as average. (See Table 2)

Co-operation in scope of individual trade exchange is evaluated as the best (over 30%), as well as in scope of organizing trade fairs, expositions or trade events (21.8%). As far as individual trade exchange is concerned this result is not a surprise when we take into consideration the spontaneous and at the same time the simplest way to develop this form of activity. We have in mind border trade (markets, trade fairs, etc.) especially in beginning of 1990s (liberalization of customs and passport regulation, opening of borders in Eastern Europe). Institutional trade exchange, which is just being created and organized, is evaluated definitely worse. Euroregion inhabitants evaluate the following activities negatively: 1. Exchange of highly qualified specialists (economists, management, financiers, etc.) – over 52% of respondents; 2. Capital flow (as much as 50.8%); 3. Institutional trade exchange (31.3%).

Table 2: Assessment of current co-operation in the Euroregion in economy (data in %)

Field of cooperation	Very good	Good	Indifferent	Poor	Very poor	TOTAL N=769
Individual trade exchange	6.9	23.5	33.8	13.8	19.5	100.0
Institutional trade exchange	0.9	11.2	35.6	26.1	21.0	100.0
Economy co-operation	0.4	7.7	37.1	28.5	17.8	100.0
Exchange of highly qualified specialists	0.3	6.1	17.3	34.2	23.9	100.0
Organizing trade fairs, expositions or trade events	2.6	19.2	33.9	22.2	15.5	100.0
Support for flow of capital	0.5	4.6	13.1	29.5	30.9	100.0
Total	1.9	12.1	28.5	25.7	21.4	100.0

**Cultural co-operation** is perceived by respondents similarly to co-operation in economy field. As much as 33% of respondents see the co-operation as weak and very weak. It would appear that in Carpathian Euroregion, which has large cultural potential (many ethnic and religious groups, historical past, similar cultures, etc.), the co-operation will develop fast and well. But according to respondents the situation is different. Probably, psychological, social and historical barriers in inhabitants and decision-makers minds are slowing down the co-operation. Additionally, economic factor (lack of financial resources) is also significant.

In several fields so far cultural co-operation is assessed positively. For example, about 33% of respondents assessed exchange of folklore groups or organizing cultural events (festivals, different types of artistic reviews) on a good level. Such a opinion results from socialism and ideological character of cultural organizations (especially folk) and from the fact that then authorities favoured those kind of events and exchange of groups, often from abroad. Even now, significant number of cultural and folk events is a continuation of events organized in Poland, Hungary, Slovakia, etc before 1989. There are new, recurrent events of similar subject organized on both sides of border (for example: Eurofolk in Sanok, Days of Ukrainian Culture in Poland, Days of Polish Culture in Ukraine, etc.). Those events are very popular and noticeable by inhabitants of the region. Inhabitants of Carpathian **most severely evaluated** the co-operation in the following fields:

1. Youth education about neighbouring countries (other culture, history, etc.) – over 50% of respondents,
2. Protection and care of historical mementos (40.6%)
3. Co-operation of different Churches and religious groups (30.4%).

Respondents' opinion about co-operation **in science** is similar to evaluation of co-operation in economy and culture. Opinions about weak and very weak co-operation are dominant (34.5%). Only every seventh respondent (14.5%) thinks the co-operation is good or very good. Over 27% of respondents evaluate organization of science conferences on good and very good level. Every fifth respondent (19.8%) thinks that exchange of scientific information between universities, research institutes, etc. in Carpathians is on good level. Only 6.4% of respondents assess such a activities like: carrying out joint research work, well and very well. In scope of scientific co-operation in such fields like: student exchange, specialist exchange or carrying out joint research, practically every second respondents assessed it as weak or very weak. 26.6% of respondents evaluated it on average level.

Border regions of countries-members of Carpathian Euroregion have clean and attractive natural environment. Regional authorities, aware of the natural resources,



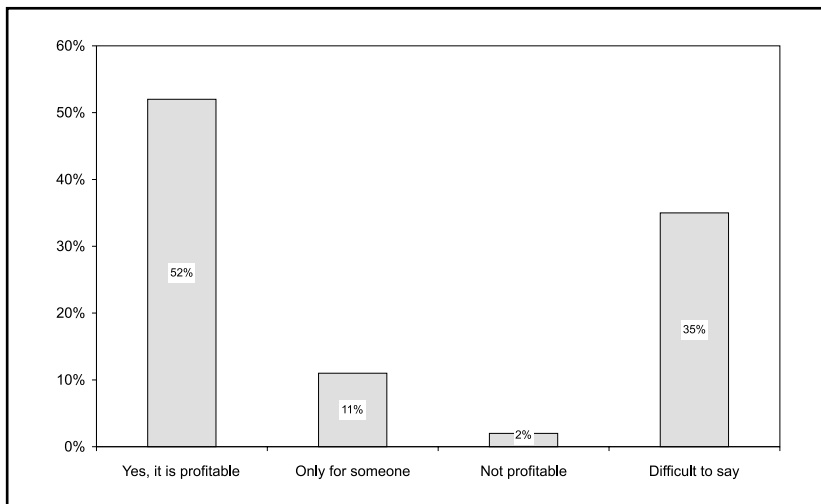
are trying to implement and develop different tourism co-operation plans in the region (for example: in 1999, Executive Committee of Environmental Protection and Tourism of CE created conception of “Development of network of cross-border thematic, tourist trails in Carpathian Euroregion”). Opening of International Biosphere Reserve “Eastern Carpathians” is a great example.

Respondents assessed co-operation **in tourism** as not the best. Over 43.1% of respondents believe that the co-operation is bad, average - 26.1% of respondents and only 11.9% assess it as good and very good. The following activities are assessed on the lowest level: publication of multilingual brochures and tourist brochures about the region (Euroregion) – as much as 45.5%, lack of joint, coherent study and implementation of Tourist Development of Carpathians Strategy (44.6%) and lack of co-operation in preparation of cross-border tourist trails in the region (39.1%).

Joint activities in natural **environment protection** in Euroregion partly complement tourist issues. Respondents assessed negatively such a important problem as cross-border co-operation in scope of natural environment protection. Every second respondent believe that so far co-operation is weak. This opinion concerns especially issue of information flow about sudden ecological disasters in the region (44%) and creation of national parks in the region (47%). Only 14.9% of respondents define present situation as good and/or very good.

Results coming from analysis of collected answers, evaluating cross-border co-operation in Carpathian Euroregion, are not optimistic. The so far co-operation in majority of fields was assessed negatively. From among concrete fields of co-operation only some of them were assessed as sufficient by respondents: organization of joint scientific conferences, cultural events or exchange of folk groups. Reasons for such a assessment are the following: lack of promotion and information in media about Euroregion and its achievements, quite short time of its functioning or subjective (bias) and objective (law, administrative, financial, etc. differences) barriers resulting from the past as well as lack of experience of all countries-members in developing such form of regional co-operation.

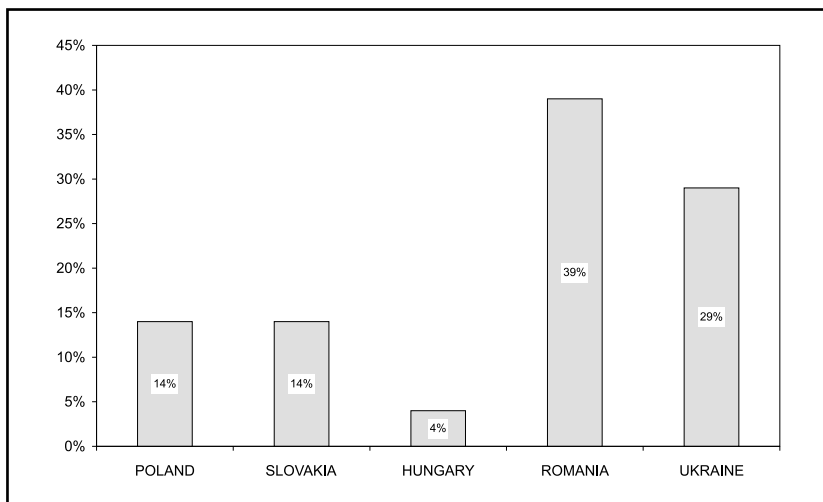
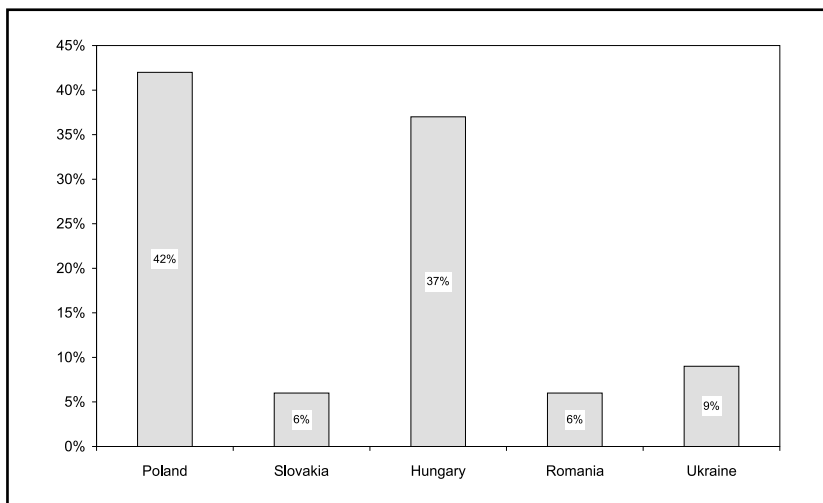
## Advantages of Euroregional co-operation in Carpathians in the opinions of inhabitants



The following Figure shows distribution of answers to question: **Do you think the co-operation between countries -members is advantageous to all countries?** Over half of respondents (52%) believe the co-operation in Carpathian Euroregion is advantageous to all its members. Different opinion has about 3% of respondents. But almost 35% of respondents have no opinion. Such a high percentage of people with no opinion results from the fact that 29.1% of respondents have never heard of Euroregion. Ukrainians perceive the biggest advantages from functioning of the Association – over 79% of respondents. Then, Hungarians – 57.1%, Romanians – 40.4% and Polish respondents – almost 38%. Slovaks do not see many advantages – not even 35% of respondents.

Inhabitants of Euroregion think the so far co-operation is fruitful to only some of countries-members. Such a opinion was expressed by 25 % of Romanians, 12% of Hungarians, 7.3% of Slovaks and only 5.9% of Poles and 3.9% of Ukrainians. Distribution of answers to the above problem shows Figures 3 and 4.

In the opinion, Poles – 42% and Hungarians – 37% have the biggest advantages of functioning of the Association. Only 10% of respondents think that Ukraine is taking advantage of Carpathian Euroregion activities. Only 6% of respondents believe that the co-operation is advantageous to Slovaks and Romanians.



At the same time, as much as 39% of Romanians believe that so far co-operation is disadvantageous to their country. 30% of Ukrainians have similar opinion. Distribution of answers among Poles and Slovaks is the same – 14% of respondents claim so. Only 4% of respondents think that Carpathian Euroregion activities are disadvantageous to Hungarians.

It is interesting that **only 19.8%** of Euroregion respondents **is able to define advantages** of being member of the Carpathian Euroregion. Every other respondents is unable to define such a advantages. Almost 30% of respondents indicated answer “difficult to say”. Ukrainians and Poles can the best define profits of the co-operation – over 30% of respondents. A little over 21% of Romanians know advantages of being country-member of Euroregion. 10.4% of Hungarians and only 3.3% of Slovaks can indicate advantages of membership in Carpathian Euroregion. Among categories of respondents, elite – 28.6% can the best define the benefits, then students – 16.2% and entrepreneurs – 14.6%.

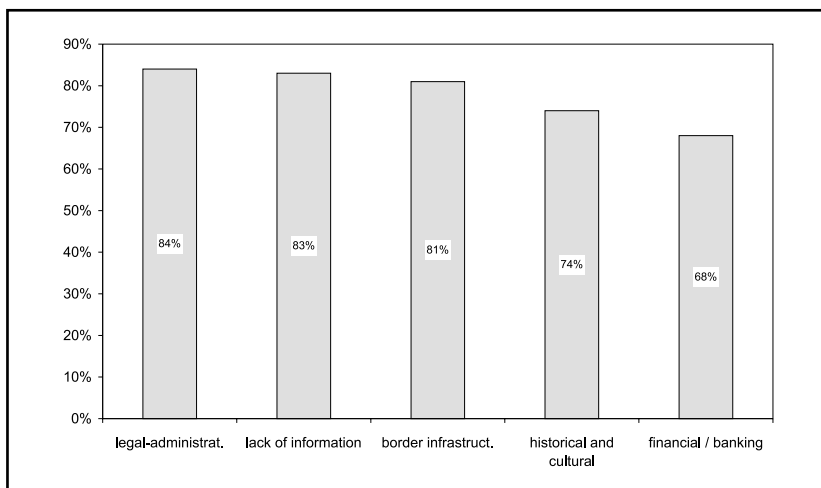
**Trade**, according to 26.7% of respondents, is the most important advantage of Euroregion co-operation. Such an opinion have 34.5% of Slovaks, over 26% of Hungarians, Romanians and Ukrainians, but only every fifth Polish respondent agree with that. Next most significant advantage is connected with production and industrial co-operation – 20.5% of respondents. Such a opinion have 30% of Romanians, 23% of Slovaks and Ukrainians and 16.2% of Hungarians. Polish respondents again see definitely less advantages of this field – merely 9%.

The third most important advantage, according to 16.7% of respondents are Euroregion activities in natural **environment protection**. Polish respondents see the biggest advantages – 34.5%. Such a opinion have 16.2% of Slovaks and about 11% of respondents from Hungary, Ukraine and Romania. 13.7% of respondents indicated improvement in **political co-operation**. This opinion have 25% of Ukrainians, a little over 18% of Hungarians and almost 12% of Poles. Smaller number of respondents from Slovakia – 8.5% and Romania – merely 5.3% see improvement in political co-operation. According to 8% of respondents there are advantages of Euroregion co-operation in **culture**. Inhabitants of Polish, Romanian, Slovakian and Hungarian part of Euroregion see positive initiatives in culture – 9%. Only 3.3% of Ukrainians see fruitful activities in culture. Certain advantages can be seen in **science** – 3.5%. Ukrainians – 5.9%, Hungarians – 5.4% and Slovaks – 4.2% see the biggest advantages of co-operation in science. So far co-operation in science is not satisfying for Poles (1.4%) and Romanians (0.7%).

**Worth mentioning** is the fact that almost 11% of respondents could not indicate what advantages of cross-border co-operation in Euroregion are most important.

## The main barriers of cross-border co-operation within the Carpathian Euroregion in the opinion of its inhabitants

In the research respondents had to indicate **barriers and obstacles** to full development of cross-border co-operation in Carpathians region. Over 76% of respondents think that such a obstacles exist and are onerous for co-operation between countries in Carpathian Euroregion. However, almost 10% of respondents have different opinion and do not see such a obstacles. According to research analysis, 11.8% of respondents have no opinion, and 2% - lack of information.



Main obstacles according to respondents:

1. Law and administrative barriers, 83.9%,
2. Lack of sufficient and objective information about other Euroregion countries' needs and possibilities, 82.5%,
3. Problems with border movement, 80.9%,
4. Barriers connected to old historical and cultural problems, 74.1%,
5. Barriers resulting from different financial and bank systems in individual countries, 67.7%.

Besides indicating the barriers in developing cross-border co-operation, respondents had to define the easiest and most difficult barriers to remove. They have been asked the following question: **Which, from among mentioned barriers, will be the easiest and which the most difficult to remove?** Distribution of answers shows the following Figure 6 and 7, respectively.

Figure 6: The easiest barriers to remove

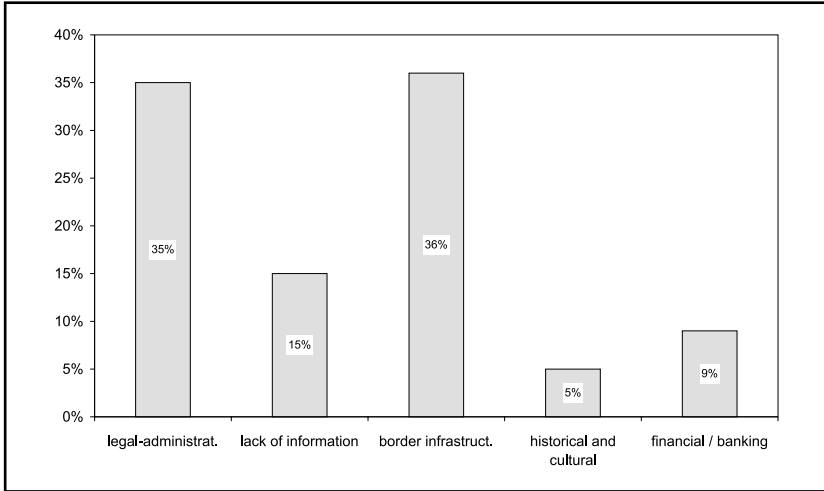
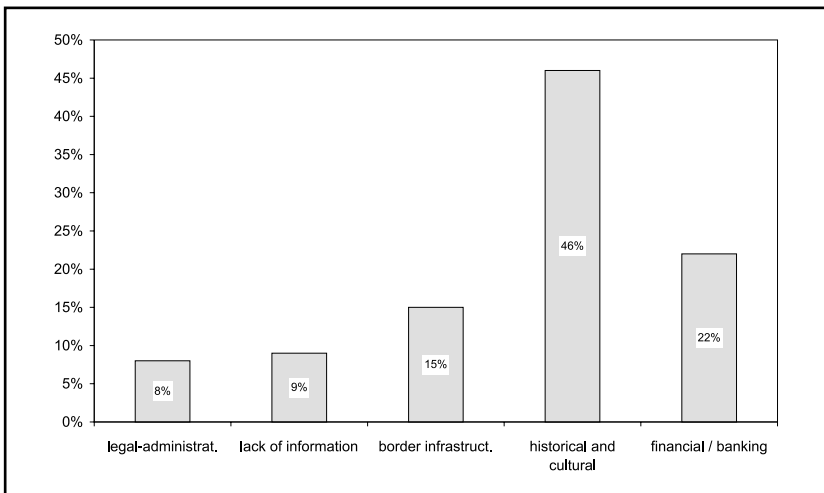
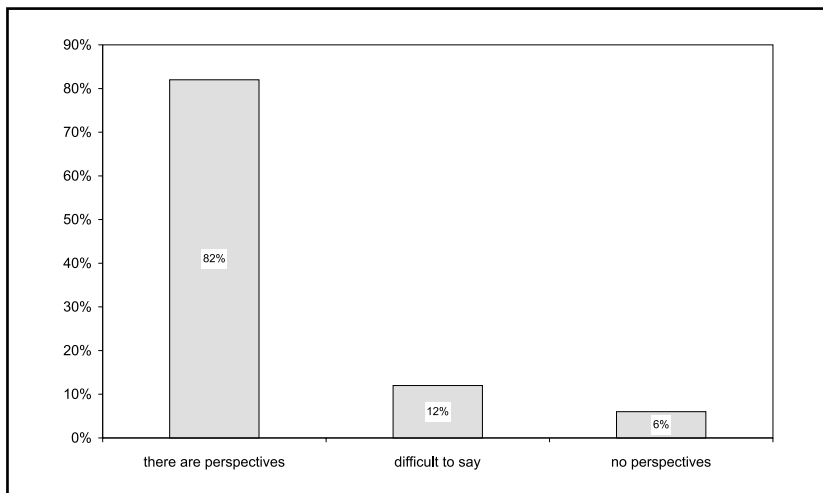


Figure 7: The most difficult barriers to remove



## Perspectives of further development of cross-border co-operation in the Carpathian Euroregion in the opinion of its inhabitants

The inhabitants of the Interregional Association of the Carpathian Euroregion, in spite of their not too good estimation of its functioning, claim that there are some chances and needs in cross-border co-operation in this region. They should soon determine better contacts in this region and have their effect on general development of borderlands of the countries in the Carpathian Euroregion.



Nearly 82% of respondents think that the Carpathian Euroregion has got prospects of its development and there are some real chances before it. In my research also, just over 6% of them expressed their negative opinions and 11.9% indicated the answer 'difficult to say'. **The highest possibilities of development** of cross-border co-operation in support of the Association were indicated by the questioned people from Romania – 90.4% and Ukraine – 89.1%. Over 81% respondents from Poland share the same view, while 76% of the inhabitants of Hungarian part of Euroregion believe in the possibility. **The least optimists** with the same opinions – 71.5%, live in borderlands of Slovakia.

Chances and needs of the development of cross-border co-operation in the region are spotted in the following fields: economics 60.4%; culture 35.7%; tourism 32.5%; science 17.5%; politics 15.4%; and other (e.g. sport) 5.3%. Real chances for better international development in Euroregion, in **economics**, are

mainly seen by inhabitants of Romanian part of the Association, nearly 75%, next Ukrainians, 66% and Poles, 65%, less Slovaks, 42,2% and Hungarians, 44% of the answers. In **culture** such prospects appear, first of all, in the Poles' opinions, 45.6%, Romanians, 44% and Ukrainians, 38%. This view is also shared by 24% of Hungarians and Slovaks. In the opinions of inhabitants, mainly from Polish part of the Association over 52% out of them think that development of **tourism** in the Carpathian Euroregion will influence a further functioning of the region. Similarly 39% of Romanians, 30.4% of Ukrainians and 26.9% of Slovaks thinks this way. Only a bit over 11% of Hungarians spots some prospects of development in this field.

The respondents also spot chances of co-operation in the Carpathian Euroregion which result from development of **science**. On this land there are many universities and the Association of Carpathian Region Universities (ACRU). According to the questioned people, such a state of affairs gives some perspectives for development of cross-border co-operation. 25% of Ukrainians and 22% of Poles express such a view. The rest of the respondents from Hungary, Romania and Slovakia share this view in 13%. According to the respondents, other chances of development of cross-border co-operation in the Carpathian region may result from taking actions in **politics**. It concerns close neighboring relationships (political) between the countries of Euroregion, keeping up with standards of international politics, which, among other things, result from the fact that some countries of the Association are negotiating on joining the European Union etc. All these elements, in the respondents' opinions will lead to further and at the same time much better development of Euro regional co-operation. 25% of Hungarians and 24.6% of Ukrainians admitted this. Only 4% of Poles and 8.3% of Slovaks and a bit over 14% of Romanians think that such a way of co-operation gives some perspectives for Euro regional development.

The respondents also **arranged the fields from the most to the least important ones in which further co-operation between the countries from the Carpathian Euroregion should be developed**. According to the data, the inhabitants of Euroregion firstly indicated the need for development of co-operation in **economics**. Further places were taken by: environmental protection, culture, tourism, science and politics. (See Tables: 3 –7)



Table 3: Perspectives of cross-border co-operation in the CE in the field of economy (data in %)

<b>ECONOMY</b>	<b>Poland N=153</b>	<b>SR N=151</b>	<b>HU N=154</b>	<b>RO N=156</b>	<b>Ukraine N=155</b>	<b>TOTAL N=769</b>
trade exchange	77.1	76.2	66.2	56.4	60.0	67.1 %
favorable conditions for flow of capital	42.5	49.7	51.3	37.2	49.0	45.9 %
international joint ventures companies	30.1	47.7	29.9	57.1	55.5	44.1 %
exchange of qualified staff	22.2	27.2	36.4	29.5	32.3	29.5 %
simplification of investments	59.5	43.7	39.6	62.2	64.5	54.0 %
fairs and exhibitions promoting economy	42.5	34.4	26	27.6	16.1	29.3 %
No development	2.0	0.7	7.1	0.6	-	2.1 %

Only 2% of all the questioned people claim that cross-border co-operation in the field of economics within the Carpathian Euroregion should not develop at all in the near future. Development of wider co-operation in **environmental protection** is for the inhabitants of the Carpathian borderlands a chance for improvement of the present relations within Association.

Table 4: Perspectives of cross-border co-operation in the CE in environmental protection (%)

<b>ENVIRONMENTAL PROTECTION</b>	<b>Poland N=153</b>	<b>SR N=151</b>	<b>HU N=154</b>	<b>RO N=156</b>	<b>Ukraine N=155</b>	<b>TOTAL N=769</b>
Purification plants on border rivers	79.1	61.6	72.7	57.7	78.1	69.8 %
Co-operation in waste utilization	58.2	59.6	51.9	70.5	70.3	62.2 %
Establishment of next national parks	51.0	45.0	24.0	36.5	45.2	40.3 %
Information on ecological catastrophes	52.9	64.2	70.1	64.1	41.3	58.5 %
Norms and penalties for environment	43.8	29.8	53.9	48.1	37.4	42.7 %
No development	-	4.6	3.9	2.5	3.2	2.8 %

According to the respondents, in the perspective of coming years for the achievement of objectives and tasks assigned by the Interregional Association in the Carpathian Euroregion activities supporting co-operation in **culture** should appear as the important element of activities of its authorities, representatives of economy, local authorities and its inhabitants.

Table 5: Perspectives of cross-border co-operation in the CE in the field of culture (data in %)

CULTURE	Poland N=153	SR N=151	HU N=154	RO N=156	Ukraine N=155	TOTAL N=769
Functioning of mass media	41.2	43.0	55.8	57.1	75.5	54.6 %
Cooperative cultural ventures	77.1	67.5	60.4	65.4	59.4	65.9 %
Exchange of folkloristic groups	14.4	33.1	7.8	35.9	9.0	20.0 %
Preservation of historical remembrances	52.9	62.9	64.3	71.8	60.0	62.4 %
Education on ethnicity and multicultural	66.0	31.1	60.4	23.7	52.3	46.7 %
Preservation traditions of churches	17.6	13.9	7.8	3.8	21.3	12.9 %
No development	2.0	3.3	5.1	1.9	2.5	3.0 %

The fourth important field in which the future cross-border co-operation in the Carpathian Euroregion should develop and which according to the inhabitants of the Association gives real chances and perspectives for such development is **tourism**.

Table 6: Perspectives of cross-border co-operation in the CE in the field of tourism (%)

TOURISM	Poland N=153	SR N=151	HU N=154	RO N=156	Ukraine N=155	TOTAL N=769
Maps with tourist routes and hotels	29.4	33.8	31.8	18.6	26.5	28.0 %
Regulations of hotels and health resorts	7.8	19.2	15.6	20.5	7.7	14.2 %
Multilingual folders and guidebooks	59.5	64.9	44.8	41.0	37.4	49.4 %
Strategies of tourism development	68.6	51.0	61.0	67.9	67.1	63.2 %
Organizing trips around Euroregion	22.9	23.8	33.1	47.4	48.4	35.2 %
Higher number of tourist border crossings	42.5	32.5	29.9	16.7	40.0	32.2 %
Establishment of tourist areas	43.1	43.7	46.1	62.2	49.7	49.0 %
No development	2.7	2.7	1.2	2.5	1.3	2.1 %

In the respondents' opinion, activities directed towards development of co-operation in **science** could have an effect on future neighborly relations in the Carpathian region.

Table 7: Perspectives of cross-border co-operation in the CE in the field of science (data in %)

SCIENCE	Poland N=153	SR N=151	HU N=154	RO N=156	Ukraine N=155	TOTAL N=769
Organizing scientific conferences	52.9	63.6	57.1	51.9	60.0	57.1 %
Publishing common books	19.0	23.8	14.9	17.3	25.2	20.0 %
International scientific magazine	18.3	19.2	20.8	35.3	25.2	23.8 %
Student exchange	66.0	66.9	57.8	64.7	63.2	63.7 %
Scientific staff exchange	48.4	47.7	48.1	49.4	57.4	50.2 %
Engagement in scientific research	64.7	45.7	51.9	51.9	52.9	53.4 %
No development	5.9	2.7	9.0	3.2	3.2	4.8 %

## The basics of the legal aspects of the international cooperation of the provinces

The Republic of Poland is a unitary country and its foreign policy is a domain of it. Units of local government as well as units of territorial administration however, are able to establish and develop international cooperation with regions from other countries. International cooperation of the provinces, led in accordance with the county's foreign policy priorities.

The beginning of the country's political system transformation and the change of the international situation created new direction and wider possibilities for more independent activities or actions. The regulations controlling the possibilities of the provinces' international cooperation has been changing several times. The most important turning points took place in 1990 – the beginning of transformation and the act of general territorial administrative units and administrative reform, which came into effect in 1999. It is worth mentioning that as a result of the political system transformation apart from provinces international cooperation is led by other Polish administrative units (e.g. districts – poviats and communes).

From 1990 till 1998 the provinces' international cooperation was led in accordance with: **The act established March 22nd 1990 of general territorial administrative units**. The most important were the regulations of authorizations and tasks of governor, such as: executing and co-ordination the tasks connected with

country's defense system; and cooperation with specific units of other countries ranging from trans-border cooperation to regional international cooperation based on the rules given by The Foreign Minister. **The regulations of The Foreign Minister concerning description of governors' way of actions** ranging from trans-border and international interregional cooperation established April 10th 1997: governors lead the cooperation in accordance with the regulation of the Polish law, the range and the forms of it are described by international agreements, which Poland is part of governors can communicate with specific units of other countries; they prepare the bills of agreements (including justification); and they also negotiate them with the proper minister. The **Constitution** of The Republic of Poland established in 1997 in article 172 act 2 includes the statement, that a unit of a local government has a right to join to international association of local and regional community and to cooperation with local and regional communities of other countries. The rules of using these rights are described by the act.<sup>9</sup>

**Treaties and agreements among countries.** Treaties and agreements reached between Poland and other countries include some general expressions connected with cooperation among countries and make basis for reaching and executing agreements concerning regional cooperation. The most important treaties and agreements on which international cooperation of a self-governed province is based are: The Treaty between The Republic of Poland and Ukraine about good neighborhood, friendly relationships and cooperation established May 18th 1992; The treaty between The Republic of Poland Government and the Government of Ukraine about interregional cooperation, established May 24th 1994; The Treaty between The Republic of Poland and the Government of The Republic of Slovakia about trans-border cooperation established August 18th 1994.

**International agreements.** The Republic of Poland in March 19th 1993 ratified European Outline Convention in the matter of Trans-Border Co-operation Between Territorial Communities and Authorities (Madrid Convention) established May 21st 1980 and European Cart of Territorial Council established October 15th 1985. The ratification of these means that Poland accepted the commitment to create such internal law, which allows regional and local authorities, in accordance with Europeans standards, create the legal conditions to international and trans-border cooperation.

**Acts.** The act established June 5th 1998 about the government administration in the province, which article 15 describes entitlements, that the governor has as far as

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<sup>9</sup> The Constitution of The Republic of Poland established in 1997 in article 172 act 2.

international cooperation is concerned. Although the entitlements have been reduced, his competences still offer wide possibilities of undertaking cooperation with the foreign partners.<sup>10</sup>

### **The socio-economic profile of the Podkarpackie Province**

The Polish part of the Carpathian Euroregion in principle identical with the area of the Podkarpackie Province. The Podkarpackie Province – formed January 1, 1999 as a result of the implementation of the last administrative reform in the country – is the region of Poland situated at the very south-east of the country. The southern and eastern borders of the province are at the same time the country borders on a 370-km stretch. Our neighbors are the Ukraine and Slovakia. The border situation and close proximity with the eastern market creates favorable, natural conditions and widely understood cross-border co-operation within the Carpathian Euroregion. Podkarpackie Province is rather poor region of Poland.

Table 8: The Podkarpackie Province vs. Poland (some indicators and data)

<b>Data</b>	<b>Podkarpackie province</b>	<b>Poland</b>	<b><i>POSITION</i></b>
Area	17,926 km <sup>2</sup>	312,685 km <sup>2</sup>	11
Population	2.138 million	38.660 million	9
Natural increasing	+ 3.0	+ 0.9	2
Net migration	- 0.5	- 0.3	6
Urbanization	41.1 %	61.9 %	16
Rural area	58.9 %	39.1 %	1

Source: The Strategy of Development of Podkarpackie Province for the years 2000-2006

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<sup>10</sup> Compare: Nijander-Dudzinska A. (2001), Wspolpraca zagraniczna wojewodztwa podkarpackiego.

Table 9: Other indicators of Podkarpackie province.

<b>Indicators/data</b>	<b>PODKARPACIE PROVINCE</b>	<b>POLAND</b>
<b>Labor market</b>		
Persons working in private sector	75.9 %	
Persons working in public sector	24.1 %	
Unemployment (30.05.01)	16.3 % (9th position)	
Unemployment in rural area	65 %	
Persons working in agriculture	47 %	
Persons working in industry	18.6 %	
Persons working in construction	4.0 %	
Persons working in transport	3.6 %	
Persons working in trade and repair	8.2 %	
<b>Living standards</b>	Position in the country	
GDP per capita/one inhabitant	14	
Average monthly gross wages and salaries	15	
Average monthly gross old age pensions	15	
Foreign investments per one inhabitant	13	
<b>Education</b>		
University education,		
Urban area	10.6 %	9.8 %
Rural area	2.0 %	1.9 %
Secondary education,		
Urban area	37.9 %	34.2 %
Rural area	17.0 %	15.5 %
Vocational education,		
Urban area	22.4 %	24.7 %
Rural area	28.0 %	28.0 %
Primary education,		
Urban area	25.7 %	27.6 %
Rural area	44.0 %	43.8 %
<b>Tertiary education (higher education)</b>		
Universities and Colleges	19 (7 private)	
Students	52,000 (31% in private Universities and Colleges)	
Numbers of student between 1993-2000	+ 250.5 %	
University lectures/teachers per 100 students	12 position in the country	

Source: The Strategy of Development of Podkarpackie Province for the years 2000-2006.<sup>11</sup>

<sup>11</sup> The indicators and date of the Podkarpackie Province are from: "The Strategy of Development of the Podkarpackie Province for the years 2000-2006" and "The Podkarpackie Province Welcomes - Investor Guide 2000" ed. by Marshal's Office of Podkarpackie Province.

## Development potentials of Podkarpackie Province

**Economy.** The Podkarpackie Province has great production potential. There are several state factories involved in the electromechanical and chemical industry. The share of the industry in the Gross National Product is approximately 30.0%. The industrial traditions date back to before WW1 and are connected with the formation of the Central Industrial District. They guarantee high quality production using advanced technology. The companies in the province are willing to be competitive in the European market and therefore appreciate the quality assurance system of ISO 9000. At present day the quality certificates have been awarded 60 companies.

Various forms of businesses use the majority of human power, financial means and materials as well as technical infrastructure. The economic transformation in Poland had a significant influence on the existing structure of the province economy. The result of that process is the increase in importance of the private sector consisting of small and medium size companies. The development of small and medium size companies has direct influence on the increase in competitiveness of the province's economy. Taking into consideration the employment values, the largest number of people works in small and medium size companies.

The most dynamic increase is observed in the number of concerns supporting the progress of enterprise – in sector of real estate and company services and in transportation, storage and communication. Relatively small groups from privatized state companies.

The analysis of the Province market shows several areas of business within the Podkarpackie Province which are worth investing in are as follows: automotive industry; electromechanical; light industry; food and farm product industry; cosmetics; pharmaceuticals and tourism.

Special economic zones (SEZ) and territories within the province offer huge investment opportunities – (SEZ EURO-PARK Mielec and SEZ EURO-PARK WISLOSAN Tarnobrzeg) where companies apply the most modern technologies represent development of the innovative potential of the province. Regulations, preferences and simplified administrative procedures applying to such areas attract prospective investors.

**Technical infrastructure.** A very important advantage of the region is its favorable situation at the crossroads of the communication routes East-West and North-South.

**The road network.** The most important roads are the national routes: international route E-40 Krakow-Tarnow-Debica-Rzeszow-Jaroslaw-Przemysl-Medyka and in the future A-4 motorway; national routes No 9: Radom-Tarnobrzeg-Rzeszow-Krosno-Dukla- Barwinek and No 19: Rzeszow-Nisko-Stalowa Wola-Tarnobrzeg – after modernization they will perform the function of express routes; and as regional, additional provincial and communal roads. The present condition of roads represents one of basic barriers of socio-economic development in Podkarpackie Province. There are no main east west and north-south arterial roads and no urban bypasses along national and regional routes; which would definitely improve traffic flow in town. The absence of a sufficient number of bridges over the main rivers, Vistula and San in particular, also represents a serious transport difficulty.

**The railway network.** There is an important railway line, Krakow-Rzeszow-Medyka (border), which is within the European transport line E-30 and a direct railway line leading to the industrial centers of the Ukraine. The Stoze-Kroszienko one-track line No 108 is the next primary east-west bound line that has an international connection. It is in sufficient technical condition. The utilization of its capability amounts to about 67%. The remaining network consists mainly of main and local railway tracks. The technical condition of the railroad infrastructure, particularly the condition of local lines, is insufficient. It adversely impinges on the competitiveness of rail transport.

**Air transport.** The Airport in Rzeszow deals with air transport in the region – both passenger and goods transport within the country and abroad. Very good conditions at the airport and technical equipment allow even large aircrafts to land. The situation of the airport has strategic importance for the development of air traffic in the southeast of Poland. There are also local airfields in the province, not fully equipped with full navigational facilities: in Mielec is a local airport for agricultural aviation – in future it is planned to use the airport also for passenger and goods transport for the Special Economic Zones in Mielec and in Tarnobrzeg; in Krosno and Turbia near Stalowa Wola there are sport flight aircraft landing fields.

**Border checkpoints.** The area of Podkarpackie Province borders on the Ukraine to the east and Slovakia in the south. Road, railway, local and transit border checkpoints function on both borders. The main border checkpoints include: Railway checkpoints: Przemysl, Werchrata, Kroszienko (with Ukraine) and Łupkow (with Slovakia). Road checkpoints: Medyka, Korczowa (with Ukraine) and Barwinek (with Slovakia). A new checkpoint in Radoszyce is to be opened soon. Air checkpoint: Rzeszow-Jasionka Airport and Mielec. Simplified border traffic checkpoints: Malhowice and Kroszienko (with Ukraine). They have no respective



infrastructure. Small border traffic checkpoints: Ozenna, Czeremcha and Barwinek (with Slovakia). Checkpoints on tourist routes that cross the state border: Ozenna, Czeremcha, Roztoki, Gorne, Balnica (with Slovakia). The opening of additional road crossings is planned: two with Slovakia – in the Commune of Krempna and Komancza and five with the Ukraine in the Commune of Lutowiska, Czrna, Ustrzyki Dolne and Lubaczow.

**Telecommunication.** Podkarpackie Province is one of the poorest equipped provinces in Poland in terms telecommunication. The density of phone subscribers is much lower than the national of average. There is a large disproportion in telephone services in towns and villages. The total number of subscribers is 363 803 (171.4 per 1000 people - average in the country is 227,8 per 1000 people). But dynamic development of the telecommunication system now in place will soon level the disproportion. It is due to construction of modern systems of a cable phone network as well as the introduction of a wide range of wireless networks, i.e. cellular phones like CENTERTEL, digital networks like ERA, PLUS GSM, IDEA CENTERTEL as well as radio and internet network.

**Business support institutions.** In the Podkarpackie Province there are a lot of business-support institutions. We can identify nine groups of organizations delivering regional development support in the province.

**Regional Development Agencies** – carrying on activities related to the economic stimulation of the region. Their main tasks include: effective use of aid; support for the development of business entrepreneurship; searching and encouraging domestic and foreign investors; co-operation with territorial self-government; and development of international co-operation. In total five regional development agencies function in Podkarpakie Province. Apart from these agencies the Podkarpacka Tourism Development Agency also functions. Developing tourism in the province is its main statutory task.

Apart from the agencies other foundations and funds function in the province, through the realization of their statutory tasks support in business development, agro-business, education, health protection, environmental protection and the establishment of international relations.

**Special Economic Zones (SEZ).** Two special economic zones, the EURO-PARK in Mielec and EURO- PARK WISLOSAN dispersed around Tarnobrzeg, Stalowa Wola and Nowa Deba function in the province. The parks are able to offer tax exemptions and incentives to attract domestic and foreign investors, in an

attempt to improve the socio-economic conditions in areas where traditional industry is in decline.

**Business support centers.** These centers provide assistance in respect of business start-ups, and support existing companies, particularly those in the SME sector. These institutions provide services in respect of consultancy, training, information and finance. 13 centers belong to the network in the province including the Rzeszow Network of Business Support Centers at the Business Promotion Association in Rzeszow, the Association for Business Initiative Support in Lezajsk and The Business Incubator IN-MARR in Mielec.

**Innovation and technology transfer centers.** Institutions implementing innovation technology transfer operate in some industrial centers of the province in connection with company restructuring (the Technology Transfer Center at the RDA "MARR" S.A. in Mielec, the Center of Investment and Innovation at RARR S.A. in Rzeszow). In the farming sector the Agricultural Advisory Centers promote innovation related to agriculture sector.

**Consulting and training centers.** The majority of these institutions are located in Rzeszow, where the Business Drive Development Association holds an important position.

**Fair, exhibition and promotion centers, commodity exchanges.** Economic promotion is an element that supports business development. Institutions organizing exhibitions, promotional events, commodities exchanges, specialized exhibitions and fairs create vehicles for this type of activity. The most important of these events are held in: Rzeszow – INTERRES, International Fair of Building, Furniture and Interior Equipment, HOME BUILDING, International Agro-Industrial and Food Fair, AGROPOL, Computer Systems and Software Fair, INFOLIVE, etc. Krosno – International Fair KONTAKT, multitrade fair gathering firms from the border areas, Jaroslaw – International multitrade fair WIELKA GIEŁDA GALICYJSKA, Przemysl – International multitrade fair BRAMA PRZEMYSKA, Mielec – Building and Interior Equipment Fair, Mielec Multitrade Fair, Tarnobrzeg – Nadwislanskie Co-operation Fair TARNOBRZEG, Stalowa Wola – regional multitrade fair SAN-EXPO.

### **The main ways of interregional cooperation of the Podkarpackie Province**

One of the priorities of Polish foreign policy is regional politics and the relationships with the closest neighbors. Among them the most important are the

relationship with Slovakia and Ukraine that are considered strategic partners of The Republic of Poland. The cooperation at the regional level is very important for mutual relationship among countries and also for the development of its regions.

**Ukraine.** Podkarpackie province cooperates **with Lvov District (Oblast)** on the basis of the agreement about the cooperation, signed in March 2000 and executive protocol to the agreement for the year 2001. These documents mention the exchange of the experiences, taking part in conferences, trades and local exhibitions, passing on the information about technologies used in constructing, communication, trade, agriculture, education, culture, environmental protection, health care and tourism. The parties oblige to pass on the information concerning funds coming from the European Union and to maintain the relationships among local administrative institution.

The agreement **with Wolyn District (Oblast)** signed May 25th 2000 among the main areas of cooperation enumerates: spatial economy, communication, transport and infrastructure, trade and supporting contacts among small and medium enterprises, agriculture, environmental protection, advertising, culture passing on the information connected with process of European Integration and the possibilities of using the means of aid coming from the European Union. The basis of the co-operation is to be the contacts among the economic, cultural and scientific institutions and firms. The list of Ukrainian partners of the Podkarpacki Region completes **Ivano-Frankovsk and Subcarpathian Districts (Oblast)** (intentional letters signed).

**Slovakia.** The next priority direction of the foreign cooperation of Podkarpacki Province is Slovakia. The agreements signed by the **province with the Kosice and Preov Regions (Kraj)** (adequately: January 25th 2001 and May 23rd 2000) prove that, where the following issues were taken into consideration: spatial economy, communication, transport and building new infrastructure, trade, agriculture and food industry, information, adapting processes and common usage of the structural funds coming from the European Union, education, culture, tourism, regional planning and environmental protection, advertising and fighting with the results of disasters, outbreaks and catastrophes.

The Podkarpacki Province, similar to other close to border provinces takes part in Polish-Slovakian Governmental Committee To Transborder Cooperation Issues and Polish- Ukrainian Governmental Committee To Transborder Cooperation Issues.

**Other countries.** The Podkarpackie Province expresses the interest in co-operation **with West-European partners** mainly with the **Italian regions: Molise and Friuli – Venezia Giulia**. The signed agreements include arrangements concerning co-operation in: Environmental protection, sanitary sector, education, culture, universities, inventions, professional development, tourism, communication, transport, work, small and medium enterprises. The Italian partners are also interested in a project so-called European corridor n.5 Trieste-Kiev and joined usage of The European structural funds.

The first step on the way to establish contacts **with Russian regions** is signed in May 2000 the agreements **with Saratovsk District**. As the future, potential partners of the province we may indicate: **Snablocs Szatmor –Bereg Region (Hungary), Rhone – Alpes and Nadrenia – Palatinet (France), Essex (Great Britain), Odessa District (Oblast) (Ukraine)**

### **Priorities of the Podkarpackie Province development.**

Six priorities have been adopted as the basis of development for the region. The priorities include:

1. A structurally modernized agriculture along with the food-processing sector
2. The establishing of favorable conditions for the development of business and for the increase of competitiveness as the basics of economic development and counteracting unemployment, the development of the SME sector
3. A development tourism sector offering complete tourist products on external markets and taking advantage of – according to the principle of balanced development – natural values and the cultural heritage of the region.
4. The creation of a system that guarantees the growth of human capital of the province in line with current trends of the civilization development
5. The modernization of the basic regional transport system and the development of technical infrastructure in respect of water management and environmental protection
6. The development of economic co-operation with Ukraine, Slovakia and the development of international co-operation with regions of other countries.

The membership of Podkarpackie Province of the Carpathian Euroregion creates the opportunity for Euro regional co-operation. The favorable geopolitical location of the region is its advantage, whereas taking advantage by the province's inhabitants of the neighborhood with Ukraine and Slovakia for the fundamental opportunity for development.

Strategic objective No. 1. The acceleration of economic growth through taking advantage of the geopolitical location and opportunities arising from Europe integration. Following courses of activities should be taken to accomplish the objective: The consolidation of regional absorptive capabilities and the development of the foreign trade with Ukraine, Slovakia and the EU countries

Strategic objective No. 2. The increase of standing of the province in international relations. Following courses of activities should be taken to accomplish the objective: Maintaining and development of good relations with Ukraine and Slovakia; the creation of favorable image of the province abroad; the cultural integration of the region within the framework of Euro regional co-operation.

**Anton Marcinič**

## ***Prospects for development in Slovak part of the Euroregion***

Thinking about regional economic development and policy, one should start at the national economy level and identify issues that drive or at least influence regional economy. Then, policies that could be developed and promoted at the local level should be identified. Therefore, in this presentation I would like to speak about general position of the Slovak economy first, and then identify the main obstacles to the both national and regional economic development. Finally, I will try to answer the question of what changes shall we expect in business behavior of Slovak enterprises in future few years and find consequences for regional response to them.

### **Starting points**

First of all, the Slovak economy is in transition and thus influenced and characterized by all relevant imperfections. Its institutional setup, quality of legislation and education of labor force fall not only behind these of EU countries, but in many respects also quite often behind these of its neighbors. Important reforms were delayed by economic policy of 1995-98, which was built on bases of recovering economy and little respect for rule of law.<sup>12</sup> After five years of average growth 5.6% (GDP 1994-98), while at the same time growing unemployment (almost 16% in 1998) and external misbalance (average current account deficit 10% in 1996-98), the country was at the edge of deep recession.

There is no doubt the stabilization package was needed and any government would have to design and execute more less the same stabilization policy. The price of delayed reforms could be observed in unemployment rate that oscillates somewhere around 18 to 20%. This leads us to the formulation of the first starting point:

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<sup>12</sup> A typical example of that period is Act on strategic enterprises that wasted time of government and parliament only to encourage enterprises to behave in rent seeking manner. The act caused enormous losses to insurance companies that collect obligatory contributions (health, employment and social insurance). The act was later cancelled. For more details see Marcinič and Beblavý (2000). *The Economic Policy in Slovakia 1990-1999*.

1. Slovakia will continue in serious economic reforms. As a consequence, we must expect fiscal prudence and little funds for spending on development projects in regions in the next five years.

The future economic policy and behavior of Slovak businesses could be derived from the three main tasks of Slovak foreign policy: Membership in OECD, struggle for membership in European union (the country has good chances to be formally ready to carry EU obligations already in January 1994) and a great hope to hear decision on its membership in NATO on Prague Summit in fall 2001.

The fact that Slovakia joined OECD has immediate consequence for its economic development and business environment. The country promised to adjust its business legislation and institutions so that they get closer to the OECD standards and allow more openness and competition.

A struggle for EU membership brings many positive features already today. A consensus of political parties about that goal allows economic policy makers to push otherwise unpopular reforms. In fact, speaking about business legislation, many amendments were required by negotiations on chapters with EU and whole new legislation is supervised for conformance with EU legislation. The problem of such a small country like Slovakia is, that given its limited potential to draft and adopt good quality legislation, it would invite more complex legislative norms from international organizations. Unfortunately, EU quite often does not offer complex solutions, but only fragments (for instance Enterprise Act).

NATO membership concerns not only Slovak security, but also economy – the way in which economic relations of the Slovak army are organized. Therefore, it will affect contractors who will face higher competition and clearer rules.

Slovak membership in international organizations affects both direction of the country's foreign trade and its composition. In 2000, almost 90% of Slovak exports went to EU and CEFTA (i.e. future EU member countries). The most important export commodity is a car (increase by 52%, compared to 1998), machinery and iron and steel.

2. Membership in international institutions will have strong impact on a business behavior in Slovakia. Enterprises will face more competition and lower administrative barriers.

Regional economic development depends on general export-import policy of the country. Recently, the Slovak government discussed such concept.<sup>13</sup> The concept contains description of economic development in Slovakia and abroad, Slovak foreign trade, comparative advantages, fiscal revenues, definition of priorities, foreign direct investment, support of small and medium size enterprises and institutional support of export. It forecasts decline of domestic demand (imports) and increase in foreign demand (export) and share of services on export. It lists countries that were assigned priority (CEFTA and Ukraine are on the list of 14 countries). Restructuring of export-import bank (EXIM Bank) and Agency for support of investment and trade (SARIO) is advocated.

The problem of the Slovak export-import policy concept is that it is too vague and broad. Too many priorities are listed, while too few real conceptual items introduced. As a result, businessmen should not expect too much help from the government. A different source of help, although administrated by the Slovak government, is access to PHARE funds of EU. However, recent scandal and dismissal of the Deputy Prime Minister, who was responsible for transparency of their use, again do not give much trust for their efficient use.

3. Although there are proclamations about pro-export policy, no real concept exists and financial and institutional help is inadequate.

## **Problems of doing business in / with Slovakia**

Let me identify just a few main problems of the Slovak business environment, having in mind a simple criterion – their impact on economic activities in the Carpathian region. The reason of going through these problems is that without their identification there is no solution. Slovakia today is a strong country that found enough energy to admit that it has many problems. Just as an example, speaking about corruption in Slovakia few years ago would be considered as an anti-Slovak activity. There were discussions in parliament, then, about punishing those who spread bad name of Slovakia, especially abroad. Today, corruption is one of the most important political themes. It certainly is not enough, but still it is the first step in right direction.

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<sup>13</sup> "Adjusted Complex program of support of export ..." was submitted to the government on June 27, 2001.



The existence of deep problems could be best demonstrated on low foreign direct investment (FDI) figures. In 1994-1999, FDI per capita reached \$1,253 in Hungary, \$515 in Poland, \$253 in Romania, but only \$200 in Slovakia.<sup>14</sup>

As the main causes of low interest of investors about Slovakia were identified:<sup>15</sup>

- a) Low transparency of legislative and business environment
- b) Low professionalism of state administration when negotiating with important investors
- c) Complicated process of enterprise registration and formalities for application for residence permission for foreigners
- d) Unclear or uncertain formulation of tax legislation, especially of tax allowances for foreign investors
- e) Non-existence of built industrial zones
- f) Fees for changing a status of land from agricultural to commercial
- g) Non-functioning register of land and unclear ownership of land
- h) Better conditions in Poland, Czech Republic and Hungary
- i) Slovakia is not a member of NATO and was not in the first group of EU membership candidates

Several large investments may serve as examples here. Very successful company, Volkswagen, built last year a new factory that employed several hundreds of workers. Only few days prior to the official opening ceremony, the company finally received construction permission, i.e. something, that normally should precede any construction activity. You can imagine what problems small foreign investors face. Another large companies, VSZ Kosice and Slovnaft Bratislava have problems to get long-term residence permission for their foreign managers. They can be in Slovakia even on tourist visa, but cannot take any legally binding decisions, i.e. cannot represent foreign owner on boards.

Another example is from smaller company, which experienced obstacle to enlargement of its business activities in something unexpected. As it opened subsidiaries in other towns, it discovered, that all towns had basically different tax regimes. Up to today, there is no book of precedence issued neither by Tax authorities, nor Ministry of Finance, and so any tax office issues its own regulation on what is and what is not tax-deductible expenditure. To understand and deal with this obstacle is difficult even for Slovaks – how difficult it must be for foreigners, especially small investors.

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<sup>14</sup> Source: IMF.

<sup>15</sup> "Measures for support of important foreign investments." A document submitted to the government in summer 2000.

The government in its document on FDI support wanted to focus on the following items in order to improve the current situation:

- a) Enforceability of law (or Rule of law)
- b) Efficiency of judicial system
- c) Corruption
- d) Quality and simplicity of tax laws
- e) Quality of enterprise related legislation
- f) Efficiency of real estate market
- g) Efficiency of establishing enterprises
- h) Simplicity of tradesmen licensing
- i) Simplicity of visa and work permit issuance for foreign workers
- j) Collateral system
- k) Strength of arbitrage
- l) Efficiency of labor related legislation
- m) Simplicity of procedures related to the construction and reconstruction of factories

It is important to recognize that all businessmen, not only foreign, will benefit from improvements in selected areas. Indeed, it is also politically more convenient to improve conditions for all, rather than only selected conditions (usually taxes) for selected businessmen (foreign investors). The Slovak government established different regime for large foreign investors, mainly as a reaction to the similar regime in other surrounding countries. For that it collected lot of criticism from domestic entrepreneurs and special regime anyway did not prove successful.

Diagnostics and assistance in finding solutions was done on request of the Slovak government by FIAS<sup>16</sup> and the World Bank (when preparing for Enterprise and financial sector adjustment loan in 1999-2001). Also other organizations and countries directly contributed to the improvements. The only limiting factor that may slow down reforms is Slovak human and institutional capacity to absorb and apply transferred knowledge. It is simply difficult to draft new laws and norms in fast speed, when number of people who specialize in respective arrears in such a small country is very low. Also, foreign assistance is sometimes counterproductive, because not coordinated properly.

Enforceability of law is a long-term project, but the first attempts started and improvements were made. The problem is that even if laws exist, courts and judges

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<sup>16</sup> Their study "Legal and regulatory barriers to enterprising" is available in Slovak language on the government web site.

sometimes hesitate to apply them. Auto regulation of judges is almost nonexistent and Ministry of Justice has little power over them. In fact, old nomenclature lawyers occupy the sector. The other problem is police, especially financial.<sup>17</sup> Finally, technical and wage conditions of both law and police professions are bad enough to make lawyers and policemen vulnerable to corruption, which is difficult to prove.

Efficiency of judicial system is an area where Ministry of Justice, helped by the World Bank, started playing an active role. Their project includes such an obvious things like random assignment of cases to judges, i.e., they are not able to pick “familiar” cases any more.

Let us skip corruption for a moment, as well as tax legislation, on which I have already made comments.

Enterprise legislation has been improved in several ways. Most importantly, by amended Commercial Code, but also by a banking sector reform, new banking act that includes some changes in audit act, and certainly by the Bankruptcy Act. Amendment of Commercial Code, which is now in parliament, extends rights of owners of enterprises, makes managers more responsible and accountable, and improves transparency of business environment by providing more accurate information on enterprises to the public. A banking sector reform was a necessary condition of efficient functioning of the Slovak financial market. Large banks were bailed out and sold to private investors. This ended an era of telephone calls to the state owned banks by politicians requesting special conditions for loans. New banking act strengthens regulation of banks. For instance, it makes bank managers personally liable for damage caused to depositors and owners, which results from too risky operations. Supervision over banking sector is better defined and should become much more effective. Importantly, the law indirectly amends Audit Act by making auditors accountable for their statements. Although it is a surprise, auditors today carry practically no responsibility for their statements and no auditor was ever punished by Auditor’s Chamber. Finally, Bankruptcy Act should prevent managers and majority owners from tunneling assets at expense of other shareholders and contractors.

Real estate market is a disaster for many reasons. First of all, it takes years to receive certificate of ownership, as real estate registers are archaic and thus slow.

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<sup>17</sup> For instance, tax offices in 2000 reported 1,525 cases to police and prosecution (majority, 435 cases, were found in Kosice region), but criminal prosecution started only in 64 cases. Overall, criminal punishment in 2000 started in only 11 cases. (Source: Hospodárske noviny, 27.6.2001).

Unfortunately, no Slovak government found enough courage to reform a system of registration. Establishment of companies and registration of any changes are very difficult, too. Slow and corrupted corporate registry is one of reasons. Little work was done also in the residual points, except of collateral system reform, that is well progressing with a help of EBRD.

Now I would like to stress importance of fighting corruption. According to the World Bank study<sup>18</sup>, the highest corruption is generally percept in health care, justice (courts and prosecution), National Property Fund and Customs. Some 35% of enterprises reported that they encountered bribery in previous two years at custom offices and when applying for import and export licenses. Still above 30% reported bribery of certification authorities and with construction permissions. Certainly, that high corruption is an important obstacle to doing business and is especially sensed in poorer regions.

## **Expected development in the region**

Economic development in the Slovak part of the Carpathian Euroregion will very much depend on the national economic development, but also on activity of locals – people who live and work in the region. It is true that two Slovak regions, Presov and Kosice, which belong to the Carpathian Euroregion are poor and have above average unemployment. People there sometimes feel at the margin of the government interest; argue, that majority of development projects and investment avoids their region and some of them finds work in Czech Republic, Austria, Germany, USA or other countries, sometimes legally, sometimes illegally. Some people join gray economy or just stay unemployed. Young people who get university education elsewhere usually stay in Bratislava or abroad. The region offers few jobs and low salaries for them to return and build their careers there.

In order to be able to think about future possible development in the region and its role in the Carpathian Euroregion, we shall summarize previous two sections of this presentation. First of all, little financial help could be expected from the central government. However, funds of EU should become more available, as the region may soon become a border between Schengen Europe and Ukraine.

Business conditions in Slovakia are far from ideal. Overall, the country gets very little investment. Regional distribution of FDI has been very much in favor of Bratislava, which is understandable. Only recently, when US Steel purchased part of

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<sup>18</sup> Corruption in Slovakia. Results of Diagnostic Surveys. World Bank and USAID, June 2000.

VSZ steel mill in Kosice, the picture changed. In 2000, 55% of FDI was located in Bratislava region, 22% in Kosice, but only 2.7% in Presov (see table). Cumulatively greatest investors are Germany, Netherlands and Austria, countries located on the West from the region. Finally, investment is attracted mainly by industry.

While Kosice can utilize presence of large investor, US Steel, and hope for recovery of many small size businesses, which provide input services to VSZ, there is hardly any significant investment and thus hope for Presov, yet. The reasons for absence of investment are quite clear: distance from markets combined with bad infrastructure, sometimes wrong education and lack of working discipline of labor, inability of local businesses to adjust to the new market conditions and competition and low quality of local state administration.

Region's distance from world markets is not that large – few hundreds kilometers to Budapest or Vienna, both frontiers of European highway network. But still, no existence of good roads to Miskolc and Budapest on one hand, and to Bratislava and Vienna on other makes transport length unpredictable – it can take six hours, but also twelve hours to drive a car to Bratislava. Education provided especially by trade schools often do not follow needs of labor market. Working discipline is low, mainly because of past working habits, but also for low wages that are too close to the social benefits.

Local businessmen often are not able to run their companies successfully. Usually they complain about lack of capital (which partly is correct argument). The main problem seems to be that the market success depends more on ability to operate in corrupted business environment, rather than on true entrepreneurial skills and innovation. Simply, a cronyism rewards businesses personally affiliated with state officers and those able to pay bribes. Such situation certainly does not support long term planning, projects and foreign participation.

One result of cronyism on the regional level is insufficient level and scope of activities of local professional bodies. Industrial chambers complain about centralism but do little in revealing corruption and malpractices at local level. Customs may serve as an example – locals are facing high corruption there, but prefer to hide it.

I did not talk much about current reform of public administration, especially, because it is quite unclear, what it means exactly. But in general, more power and responsibility will be given to the regions. Local institutions will have to adjust and become more professional, but this should be seen as a longer process, rather than fast transition. The beginning could actually be marked by chaos and higher corruption.

A quality of state administration is determined by three factors: descended labor force from past regime with all bad habits, low wages (starting with a wage of ministers, which cannot compete with mid-level managements) and dependence on ruling political parties. Especially the last factor is very damaging – each elections mean change not only in leading, but also in common operational positions.

Looking at development of regions in EU<sup>19</sup> one could foresee negative impact of enlargement on Kosice and Presov regions during the first decade of Slovakia EU membership. A general trend is, that shortly after joining the union, economic centers become richer and provinces poorer. No surprise that Bratislava region even today is not only richest within Slovakia, but also reached average level of EU.

The fact that Schengen border will likely cross the Euroregion will not bring too much new jobs. It is hard to say if it will make trade between Poland, Hungary and Slovakia on one side and Romania and Ukraine on other easier, or more difficult. Though it is hard to imagine that trade level would further decline from current low volumes. It is more probable that there will be no intent to make Schengen border Chinese wall and PHARE funds would be used accordingly.

What certainly will help trade and investment is a change in legislation and restructuring of institutions. Although it will take years, new laws will make enterprising more transparent and therefore easier.

Carpathian Euroregion will change its face significantly in next few years. The main reason is that three countries, Poland, Hungary and Slovakia, will very likely become members of EU. This will bring different business conditions and trade rules. Ukraine and Romania will likely profit from the three countries membership.

On the other hand, a membership in EU will also enlarge a gap between centers and provinces. Therefore, we can expect that majority of capital will continue to concentrate outside the Euroregion and labor (especially well educated) will move away too, as construction market becomes more deregulated.

Unfortunately, no detailed study summarizing results of all institutional, legislative and integration changes in regions was made and therefore is difficult to make predictions. Perhaps my presentation was not too optimistic, but it was meant to put more light on problems, that may become real in near future.

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<sup>19</sup> EÚ (1999). 6<sup>th</sup> Report on Regions of EU. European Commission.

Table: The development of foreign direct investment (FDI) in Slovakia, million USD

	Enterprises		Banks		Total	
	2000	Δ00/98 %	2000	Δ00/98 %	2000	Δ00/98 %
Total FDI	3,166.2	82.3	330.1	- 5.8	3,496.3	67.5
By origin						
Germany	913.8	136.1	53.1	25.8	966.9	125.3
Netherland	735.6	208.8	56.8	- 12.5	792.4	161.4
Austria	440.0	32.3	89.4	20.2	529.4	30.0
USA	276.2	75.4	35.0	- 22.6	311.2	53.5
Czech Republic	139.9	11.7	68.0	- 5.8	207.9	5.3
Hungary	188.0	na	0.0	na	188.0	na
Great Britain	115.8	- 44.2	2.2	- 89.7	118.0	- 48.5
France	87.6	0.0	9.5	- 22.1	97.1	- 2.7
Italy	45.1	65.2	11.0	14.6	56.1	52.0
Belgium	49.4	77.7	0.0	0.0	49.4	77.1
Other countries	174.6	19.8	5.1	- 38.6	179.7	16.7
By sector of economy						
Agriculture	3.1	3,000.0			3.1	3,000.0
Mining	40.9	65.6			40.9	65.6
Industry	1,869.6	80.8			1,869.6	80.8
Electricity and gas	9.2	- 20.7			9.2	- 20.7
Construction	35.0	- 18.6			35.0	- 18.6
Trade	435.4	22.6			435.4	22.6
Hotels and restaurants	23.7	30.9			23.7	30.9
Transport	528.8	702.4			528.8	702.4
Finance and insurance	124.9	18.7	330.1	- 5.8	455.0	- 0.1
Service	83.6	21.9			83.6	21.9
Health care	1.4	180.0			1.4	180.0
Other public service	10.7	5.9			10.7	5.9
By region						
Bratislava	1,607.5	75.4	330.1	- 5.8	1,937.6	53.0
Trnava	199.6	14.6	0.0		199.6	14.6
Trencin	128.6		0.0		128.6	
Nitra	94.0		0.0		94.0	
Zilina	152.8	47.0	0.0		152.8	47.0
Banska Bystrica	111.3		0.0		111.3	
Presov	93.9	220.3	0.0		93.9	220.3
Kosice	778.6		0.0		778.6	

Notes: Exchange rate SKK/USD 2000: 47.389, 1999: 42.266, 1998: 36.913. FDI stands for property share and reinvested profit. Data by December 31. Source: National Bank of Slovakia, April 2001 monthly report, [www.nbs.sk](http://www.nbs.sk).

# SELECTED DISCUSSION ADDRESSES

**Svitlana Mitryayeva**

*Strategic Studies Foundation, Uzhgorod*

The effectiveness of Ukraine's co-operation with International Financial Organizations (IFO) will remain minimal. It is explained by the insignificant volume of financing in comparison with analogical indexes of Poland, Hungary, Russian Federation or China. The high level of corruption at all levels of the executive power is the main obstacle on the way to the realization of the International Bank for Reconstruction and Development (IBRD) projects. First of all, it concerns the industries which are strategically important for the national security and prospects of the chief state institutions functioning.

The international image of Ukraine remains negative in the area of activities of the world economy key actors. "The Heritage Foundation" rating shows that Ukraine's economics occupies the 124 position from 161 according to its transparency level. The Ukrainian economics has been assessed by the World Bank (WB) experts as "non-transparent". The International Monetary Fund (IMF) and WB Prague Summit decisions confirm the IFO refusal to finance the "abstract reforms" and support the credit and financial stability in the emerging independent states acting in accordance with the social-political considerations. This pragmatic approach is being synchronized with the realization of the WB Anticorruption Program for 2001-2004. Ukraine, on the same level as Indonesia and Nigeria, remains the most problem state taking into account the inability of its authorities to block the unofficial business-group activities.

The EU December 2000 Summit decision about EU enlargement in 2004 up to 27 members excludes EU membership for Ukraine at least for the current decade. Together with Turkey and Albania, Ukraine has remained outside the bounds of the European economic space. Ukraine's accession to WTO is impossible without support of both the EU executive bodies and the USA Administration.

Ukraine remains alone with the economic growth problems for the nearest and middle-term perspective. Interests of the national economics real sector do not coincide with the IMF and WB goals oriented to the global market projects. Conservation of the national economics for the nearest 4-5 years will lead to its final isolation from the world market of goods and services. According to this scenario,



the next most probable step would be absorption of the innovationally attractive sectors of Ukrainian economics by the Russian half-oligarchic circles. The state's economic sovereignty would be lost finally.

In the nearest future Ukraine should take the radical steps in the dimension of the geoeconomic choice. Otherwise, as Zbigniew Brzezinski noted, Ukraine would get into the “black hole” in the middle of Euro-Asia. Russia has got already into it and probably would stay there for some time.

In this context one should underline the importance of the transfrontier co-operation development for the Ukrainian economics, which is a significant factor of the European integration. It gives Ukraine a chance to demonstrate its readiness and ability to accept and further develop the European values of the international co-operation.

Transfrontier co-operation in the framework of the Carpathian Euroregion is important to the realization of both Ukraine's and Slovakia's foreign policy goals, as well as to stimulating their domestic development. Successful co-operation will promote revitalization and economic development of both the Western Ukraine and the Eastern Slovakia, which are the poorest regions in their home countries.

The lack of governmental investments in the transport and communication infrastructure, the private business support, educational and cultural programs developing can be at least partly compensated by the development of the Carpathian Euroregion. One should notice that important financial institutions have declared their readiness for investment support of the Carpathian Euroregion activities – e.g. EU in the framework of the PHARE program, European Bank for Reconstruction and Development, some foundations too.

The development of transfrontier co-operation in the framework of the Carpathian Euroregion fully corresponds with the basic bilateral treaties and can become one of the instruments of their implementation as well as of the good-neighbourly relations.

**Mykhaylo Klyap**

*Strategies Studies Foundation, Uzhgorod*

While discussing issues of the development of the economic transfrontier co-operation in the framework of the Carpathian Euroregion (CE), the great attention is paid to the question of the state centralism of the CE member states.

“Bratislava centralism”, “Kyiv centralism”, and possibly “Budapest, Bucharest and Warsaw centralism” prevent from realization of the economic projects initiated by the local self-government bodies of the CE member states. In this context the next remarks can be made.

Research of many administrative systems in the terms of the system analysis shows that the real systems virtually are useful not to the goals they have been created for, but to the goals of the people working in this system. As an example one can consider the industries where the producer interests prevail over the consumer interests and the seller interests prevail over those of the buyers. The bureaucrat interests of the state power authorities often prevail over the region interests. It might be called “system egotism”.

Category “system egotism” is applicable to the analysis of the evolution of the state administrative system in general. Comparative analysis of the ways of development of the world countries shows that only those countries which have managed to make the effective counterbalance to the egotism of the central state power organs, have gained the appropriate high level of the economic development. The western experts of the state management theory consider the well-developed civil society and optimized distribution of the powers between local and central state authorities to be the main factors of the limitation of the “egotism” of the administrative system of the industrially developed countries.

Since the economic transfrontier co-operation in the framework of the CE in practice runs into the counteraction of the central state power organs, it is necessary to consolidate the efforts of the experts and representatives of the legislative organs of the CE member states for the purpose of supporting the changes of the existing legislative basis of the state regulation of the territorial development. It is necessary to consolidate the efforts of all the parties concerned for the purpose of creating the new legislative, moral and informational conditions of securing the legitimate activities of the region as a system of economic and political activities.

Acuteness of the discussions on the issues of the legislative problems of the interaction of the regional economic initiatives with the central state power bodies shows that this problem should be singled out. It would be useful to offer the CE administration to hold the conference with the participation of the specialists related to the issues of the state management, legislation, as well as members of parliament, where to work out the concrete propositions and future actions directed to solving this problem.

# LIST OF PARTICIPANTS

## FROM HUNGARY:

Árpád Horánszky, director of economic development, Chamber of Commerce and Industry, Borsod-Abauj-Zemplen County

István Suli-Zakar, head of department, Lajos Kossuth University, Debrecen

Ferenc Boros, political scientist, Törökpaták

Brigitta László, executive manager, Carpathian Euroregion

József Kun, Secretariat of the Carpathian Euroregion

## FROM POLAND:

Slawomir Rębisz, Rzeszow Pedagogical University, Department of Sociology

Andrzej Kupich, Embassy of Poland, Bratislava

## FROM ROMANIA:

Adela Coman, University of Baia-Mare

Bogdan Lazar, executive director, Romanian part of Carpathian Euroregion

Pamfil Bercean, president, Romanian part of Carpathian Euroregion

Maria Kovacs, County Council Maramures

## FROM SLOVAKIA:

Andrej Danečko, Institute for Geopolitical Studies, Košice

Rozália Múdra, deputy head, Regional office, Košice

Anna Čučvarová, Department of regional development, District office Bardejov

Ľuboš Čepan, Department of regional development, District office Svidník

Milan Volčko, deputy head, District office Svidník

Milan Benč, head, District office Prešov

Ján Bilas, Regional office Košice

Marián Gajdoš, Institute of Social Sciences, Košice

Stanislav Konečný, Institute of Social Sciences

Štefan Homza, Chamber of Commerce and Industry, Košice

Štefan Karáš, director, Chamber of Commerce and Industry, Košice

Štefan Sopko, head, Department of Regional Development, Regional office Prešov

Mária Šabolová, Slovak Foreign Policy Association

Vladimír Benč, Slovak Foreign Policy Association

Dagmar Pfeiferová, Slovak Foreign Policy Association

Anton Marcinčin, executive director, Slovak Foreign Policy Association

Alexander Duleba, director, Research Center of the SFPA  
Ján Novotný, Department of Regional Development, District office of Prešov  
Milan Tkáčik, Mayor office Prešov  
Rastislav Mochnacký, Prešov Civic Forum  
Ľuboš Marcinek, University of Prešov  
Irina Mattová, University of Prešov  
Dušan Boršovský, University of Prešov  
Ladislav Šándor, University of Prešov  
Igor Bartho, general consul, General Consulate of the Slovak Republic, Uzhgorod  
Miron Mikita, Agency for Regional Development, Svidník  
Michal Bača, Agency for Regional Development, Svidník  
Stanislav Bačenko, daily Korzár  
Michal Frank, daily Korzár  
Ján Bača, Slovak Television, Košice  
Valéria Kuchčáková, Agency for Regional Development, Prešov  
Alojz Zaduban, Slovak Foreign Policy Association  
Štefan Pazdera, Slovak Foreign Policy Association  
Martin Lacko, Mayor office, Košice  
Vladimír Jurek, TV Vega  
Michal Štofa, TV Vega  
Janka Štefková, Radio Lumen  
Jozef Jurčišín, TASR news agency  
János Szerencsés, General Consulate of Hungary, Košice  
Jaroslav Asman, consul – first secretary, Consulate of Ukraine, Prešov

### **FROM UKRAINE:**

Alexander Dikarev, National Institute of Strategic Studies, Uzhgorod  
Svitlana Mitriyayeva, director, Strategies Studies Foundation  
Michal Klyap, assistant manager, Strategies Studies Foundation  
Eva Kiss, research fellow, Institute of World Economy and International Relations, Uzhgorod  
Otto Kovchar, vice-president, Transcarpathian Chamber of Commerce and Industry, Uzhgorod  
Alen Panov, country representative, Transcarpathian Region  
Volodymyr Panov, director, Strategies Studies Foundation

### **SPECIAL GUESTS:**

Kurt Poglitsch, Central European Consulting















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