



Working Paper Series GRINCOH

Growth-Innovation-Competitiveness
Fostering Cohesion in Central and Eastern Europe

Serie 6
Spaces, Territories and Regions



Paper No. 6.03.02.02

Title The Karlovy Vary Subregion as an Example of a Border Region - a Case Study Report

Marek W. Kozak*

*Centre for European Regional and Local Studies (EUROREG), University of Warsaw

2014

www.grincoh.eu

Marek W. Kozak, m.kozak@uw.edu.pl
Centre for European Regional and Local Studies (EUROREG), University of Warsaw
www.euroreg.uw.edu.pl

Please cite as:

Kozak M.W., (2014), 'The Karlovy Vary Subregion as an Example of a Border Region - a Case Study Report', GRINCOH Working Paper Series, Paper No. 6.03.02.02

The Karlovy Vary Subregion as an Example of a Border Region - a Case Study Report¹

Content

1. Introduction	2
2. Trajectories of economic development and structural change, social cohesion	5
3. Development factors	11
3A. External context of development: trade and FDI	13
3B. Endogenous growth factors: innovation and entrepreneurship	14
4. Governance and local/regional development policies	15
4.3. What was the outcome of local/regional policies in different fields?	18
5. External interventions: national policies and EU cohesion policy	18
6. Future prospects	20
7. CONCLUSIONS	22
LIST OF INTERVIEWED INSTITUTIONS:	25
REFERENCES	25

¹ I would like to extend my heartfelt thanks for helping me to prepare the visit to Doc. RNDr. Jiří Blažek, Ph.D., (Praha) and Mr Ivo Kováč (Karlovy Vary), and to the regional experts, for their willingness to share their knowledge of the region with me.

Abbreviations:

ROP – Regional Operational Programme

GVA – Gross Value Added

CAP – Common Agricultural Policy

GDP – gross domestic product

IDI – in-depth interview

Desk research – analysis of materials (publications, reports, documents)

CZSO – statistical office of the Czech Republic (equivalent of CSO, central statistical office)

NUTS – Nomenclature of Territorial Units for Statistics 0, 1, 2, 3), where NUTS 3 is a subregion, and NUTS 2 is a region

LAU - local administrative unit (LAU 1 – districts [okresy]; LAU 2 – municipalities [obce])

FTE – full-time equivalents

FDI - foreign direct investments

R&D - research and development

EU - European Union

1. Introduction

The study was carried out in the Karlovy Vary region (*Karlovarský kraj*). The author travelled to the region on 8-13 September 2013, to make observations and conduct interviews with experts (and practitioners) from the self-governing region (in this text, also referred to as the “subregion”). Due to the complex objectives of the research project, the following research methodologies were used for the purposes of the case study: desk research, in-depth interviews, observation. The data concerning expenditure are typically expressed in the Czech Koruna (CZK) (at the end of 2013 and beginning of 2014, the average exchange rate was approximately CZK 27.5 = EUR 1).

1.1. Location and history

The Karlovy Vary self-governing region (NUTS 3 subregion) is located in the Czech Republic and borders on Bavaria and Saxony (Figure 1). The smallest of the Czech self-governing regions, it is adjacent to the Ústí nad Labem and Plzeň self-governing regions. Together with the Ústí nad Labem self-governing region, it makes up a NUTS 2 known as Severozápad (Northwestern region). Its constituent Ústí nad Labem self-governing region (subregion) is slightly better developed than the Karlovy Vary subregion, but not sufficiently so to become a driver of growth or a strong partner.

Figure 1. The Karlovy Vary self-governing region (subregion, NUTS 3)



(source: Wikipedia)

The Karlovy Vary subregion occupies an area of 3314.5 km² and has a population of ca. 303,000 (2011). Its main cities are small-sized capitals of the three former districts (which still exist, despite the fact that multi-purpose state administration bodies on this level were abolished in 2002) that together make up the subregion, viz.: Karlovy Vary (ca. 50,000 population), Cheb (33,000) and

Sokolov (23,000). The subregion was established in 2000 from parts of areas which were formerly incorporated into different regions, with the subregion's capital in Karlovy Vary, a city long enjoying fame as a European spa, earlier known under the name of Karlsbad.

From 1526 onwards, the Karlovy Vary self-governing region (subregion) and the whole of Czechia were incorporated into the Austrian monarchy, and from 1918 it formed part of independent Czechoslovakia. Until the end of World War II, the subregion was primarily inhabited by German-speaking population; by the decision of the Potsdam Conference these residents were expelled, to be replaced by Czech population. Old economic and cultural ties with Germany were severed in the wake of the resettlements and during the Cold War, whereas new ties are still in the making. That they are constantly becoming stronger is manifested by the quickly growing transport, including an international airport near Karlovy Vary which handled over 30,000 passengers in 2006 (CE CONSULTING 2010). Likewise, the subregion has good transport connections with the German A93 and A72 motorways, and with Prague via Route No. 6 (which is slowly being expanded) and somewhat circuitous but convenient Route No. 5 leading from Plzeň to Prague. The completed section Karlovy Vary-Cheb (R6), built in the motorway standard, is the main internal transport axis of the subregion connecting Karlovy Vary, Sokolov and Cheb. The railway line (K.170) intersecting the southern part of the subregion and leading from Prague via Plzeň and Cheb to southern Germany, as part of the pan-European transport corridor III, also plays an important transport role (EC CONSULTING 2010: 37).

1.2. Basic socio-economic characteristics

The Karlovy Vary self-governing region (subregion) has a population of ca. 303,000, with 75,000 living in the functional area of Karlovy Vary, the subregional capital. During the last decade, the population of both the region and the city slightly decreased (by 2500 in the years 2007-2011) due to unclear development prospects and a shortage of modern jobs and also, according to some, because of the central authorities' misjudging the role of the spas in the generation of subregional income. The population density of this mountainous and wooded area is 91.4 people per km², i.e. lower than the national average (129). Most of the self-governing region's (subregion's) businesses operate in the Karlovy Vary district (44%), Cheb (34%) and Sokolov (22%)(GOLFER 2009: 24). The latter district, following the collapse of traditional industries, has the highest level of unemployment, including structural unemployment (*ibid.*, p. 30). The subregion's income is among the lowest in the whole country (10,291 EUR in 2010, current prices, which represents 72% of the national average). This is mainly due to the structural weaknesses of the subregional economy, which is strongly diversified internally. Since 2001, due to an incomplete restructuring process (including the heralded but unattempted closure of the lignite mine in the Sokolov district), the self-governing region (subregion) has witnessed ongoing deindustrialisation, although the local industry still generates 30.9% of GVA and employs the largest number of personnel, i.e. 43,600, compared to 52,100 in 1996. The falling GVA level in 1999-2010 was visible in industry (by -3.5 percentage points, down to 30.9% in 2010), agriculture (by 0.8 percentage point, down to 2.4%) and trade (by -2.2 percentage points, down to 21.6% in 2010). In the same period, the share of construction in GVA generation increased by 1.8 percentage points (up to 7.7%), in financial brokerage and real estate trade, by 2.0 percentage points (up to 13.7%) and in public services, by 0.9 percentage points (up to 23.8% in 2010). The present (data for 2008) employment structure is the following: agriculture: 3400 employed; industry: 43,600; construction: 13,900; trade: 42,600; financial brokerage and real estate trade: 10,600, and public

services: 35,400. The increased employment in the latter sector (from 33,200 in 1999) may be viewed as proof of the deteriorating situation in the subregion, owing to increased demand for welfare assistance.

In 2006, 6.7% of the subregion's population had tertiary education (compared to the national average of 10.9%)(ROP 2011: 83), a clear proof of the weak economic standing of the region and of the weakness of the higher education institutions in the region (these include: Faculty of Economics of the University of West Bohemia, branch in Cheb; a branch of the university of technology, and a private higher education institution in Karlovy Vary, which has problems with enrolling students due to the demographic slump in the least populated self-governing region (subregion) of the Czech Republic). According to public statistics, in 2012 there was one higher education institution located in the subregion. Altogether, the number of university students² in the subregion was 7075, of whom 1461 attended the private college. As the number of students falls (in 2010 it was 7353), so does the student penetration rate. The number of university students per 10,000 population was 233.5³ in 2012 (based on CZSO 2013).

In 2012 (data published on 30.12.2013), GDP in the subregion was EUR 14,593 in PPP [purchasing power parity] terms (i.e. 70.6% of the Czech GDP)(CZSO 2013). This meant a relative decrease compared to the national average (and effectively a divergence process in the Czech Republic).

1.3. Administrative and governance context

The self-governing region (subregions, *kraje*, NUTS 3) in the Czech Republic were created in 2000. Unlike in Poland, they serve as important administrative centres. The subregions were established within new boundaries, as for example was the case with the Karlovy Vary subregion (self-governing region). The NUTS 3 subregions form parts of the NUTS 2 regions and are furnished with rather broad competencies, as a rule taken over from the district level. Although multipurpose bodies (*okresni urady*) were formally abolished in 2002, some state institutions still discharge their functions based on the old district structure. Following the reforms, at the local level there are self-governing municipalities⁴ (which are usually small, comprising not more than few settlements) and districts (LAU 1), which do not have their own authorities (hence the present name: territorial division of the subregion – *uzemni odbor*) but perform public functions in the sphere of the judiciary, policing, archives and statistics. In 2008, the following classification of the NUTS territorial units was introduced in the Czech Republic:

- 8 governmental NUTS2 regions (*uzemni kraj*), based on the division made as early as 1960, with no self-governing authorities. In the years 2007-2013, regional operational programmes were formally managed from this level, with the exception of the Prague region, which was comprised by the Competitiveness objective);
- 14 self-governing regions (subregions, *kraj*, full name: *samospravní územní kraj*, NUTS3), in charge of transport, education at all levels, citizens' affairs, economic development, spatial

² Czech citizens.

³ i.e. 23.5 per 1000.

⁴ Today, ca. 6.25 thousand of municipalities in the Czech Republic (compared to nearly 2.5 thousand in Poland).

management, etc. What is important for further analysis is that these subregions have no competence in R+D, business development or labour market.

- 77 units at the district (*okres*) LAU 1 level, devoid of any significant decision-making authority (whose competences were delegated to the NUTS 3 subregions);
- 6249 typically small municipalities (LAU 2), which provide basic services to citizens.

We can say therefore that the territorial structure of the Czech Republic is not uniform, leaving a number of major strategic issues in the hands of the authorities. The territorial government operates only at the municipal (*obec*, LAU 2) and subregional (*kraj*, NUTS 3) levels (Netolický 2007). The data for 2005 indicate that, on the income side, 27.9% of public funds were handled by territorial governments (NUTS3 subregions, LAU2 municipalities, voluntary associations of municipalities). In reality, as they performed some of the state tasks, their budgetary funds could be even higher (*ibid.*, p. 21 ff). In 2012, the revenues of local government units (subregion, municipalities and associations of municipalities) of the Karlovy Vary subregion totalled CZK 11,011 million (i.e. 2.8% of total local government revenues in the Czech Republic), and expenditure - CZK 11,429 million (3.0% of expenditure nationally) (CZSO 2013).

Similarly to Poland and several other countries, membership of self-governing business organisations is not obligatory in the Czech Republic; they operate as voluntary associations of members. In consequence, the enterprise sector has a dispersed representation, and cooperation with the local authorities is strongly dependent on the local and regional context. Other not-for-profit non-governmental organisations are quite numerous; some of them closely cooperate with the local governments in performing such tasks as measures co-financed from the European Social Fund. In terms of development roles, the following players have been particularly active: Karlovy Vary Business Development Agency, District Chamber of Commerce in Cheb, and the Regional Chamber of Commerce for the Poohří Area.

2. Trajectories of economic development and structural change, social cohesion

2.1. Economic performance of the region

Although the smallest and economically the weakest in the Czech Republic (70.6% of the country's GDP), the Karlovy Vary self-governing region (subregion) is rather strongly differentiated. Its best known part is the district with the capital in the city of Karlovy Vary, perceived as wealthy and modern mainly due to its well-established and Europe-famous balneal and health spa sector. The European character of the city's tourism has recently been reduced to the Russian dimension, as visitors from Eastern Europe clearly prevail in the spa areas of the city. In addition to tourism, other forms of business activity thrive in the city and in the district; altogether, 44% of the subregion's companies operate in this district (the biggest of them include WITTE and Water and Sewer Company)(GOLFER 2009: 25).

The only modernisation area beside Karlovy Vary is the district with the capital in Cheb, where an industrial park was launched in 2004,⁵ and proved an effective tool in attracting inward investors and

⁵ The attempt to set up a similar park in the subregion was unsuccessful, and the Ostrov zone has failed to fulfil its planned role.

fostering economic modernisation. The district/subregional chamber of commerce is also located in Cheb; in addition to the business development agency in Karlovy Vary and the chamber in Sokolov, it is one of the major non-governmental institutions in the sphere of economic development. Due to the varying characteristics of the individual districts, any average values for the whole subregion should be viewed in the context of these differences. 34% of the subregion's companies operate in the Cheb district (the biggest include the balneal establishments in Františkovy Lázně *and* Mariánské Lázně) (GOLFER 2009: 25). This particular district has the relatively most modern economic structure (which does not necessarily mean that it is modern as such).

The district with the capital in Sokolov has long been famous for its obsolete traditional industries (chemical, mining, textile, etc.), and following the closure of most former state-owned enterprises and lack of new jobs it suffers from high structural unemployment. At the same time, it is considered as an ecologically endangered area, even though the privatised lignite mine, prepared for closure in as yet unspecified future, has considerably reduced its negative environmental impact. Generally speaking, outside of Sokolov's industrialised areas, the district has extensive areas with considerable natural assets. Sokolov is one of the places with ethnic tensions concerning the Roma minority, which, however, are clearly related to the use of unemployment benefits. 22% of the subregion's companies operate in the district (and the biggest company is the Sokolov lignite mine) (GOLFER 2009: 26).

Starting from 2008, when the subregion's GDP decreased in the wake of the global economic crisis, it has gradually increased, which can be viewed as proof of ending the era of socially costly restructuring. The drop around 2.5% did not considerably diverge from the GDP decrease recorded for the whole country. It should be borne in mind, however, that the revenues in 2012 accounted for only 70.6% of the national average. In the years 1999–2010, the subregion's GDP per capita increased more than twofold (from EUR 4917 to 10,291), but it also fell from 87% of the national average down to 70.6% in relative terms. It can be said therefore that the border location and good transport connections with Germany are insufficient to enter a path of accelerated growth.

The main reasons for the deteriorating position of the Karlovy Vary region include the eurozone crisis, consequences of the restructuring of heavy industry (particularly in the Sokolov district) and a relative stabilisation of the situation in the spa resorts, especially Karlovy Vary, although the city has not regained the splendour of a truly European spa and is increasingly becoming an Eastern European resort more and more frequently visited by East European citizens, with their growing capital interests⁶. The proximity of Germany is of certain importance for the living conditions of the subregion's residents as it allows them to shop for many staple goods at markedly lower prices in the shopping centres on the other side of the border.

The subregion's exports were above the national average, although characterised by a low share of high-tech products (discussed in more detail below). Tourism is a specific form of export, but there are insufficient data to assess the scale of this activity.

⁶ During the research process, the author stayed in the very centre of the historic resort, in a Russian-owned hotel, where the staff would routinely address all guests in Russian, and the repair team called in to fix some plumbing problems in the bathroom was from a local (Karlovy Vary) company which, judging from their language of communication, was established by the Russians.

2.2. Heritage of former socialist system

It is difficult to evaluate the heritage of the former political system. It certainly includes the numerous post-industrial sites in the Sokolov district, remains of the once thriving heavy industry. The privatised lignite company is the only one that continues operation; following a thorough restructuring, its market performance is constantly improved. The residential blocks in Sokolov, first abandoned, then vandalised by subsequent residents (now a secured ruin) are an indirect relic of the old regime. Another example is Kyselka, formerly a scenic spa on the River Ohře established by Mattoni, a well-known entrepreneur and mineral water producer, is also facing almost complete ruin, or traces of heavy industrial operations primarily in the former Sokolov basin, or the concrete hotel building in the very centre of Karlovy Vary. As the time passed, these traces were less and less visible, e.g. in the former Karlovy Vary barracks which after reconstruction serve as the home of the local authorities. Based on the observations made in Karlovy Vary, a hypothesis about an underlying atmosphere of the former regime can be put forward, which is also visible in the behaviour of some of the tourism sector employees, manifested e.g. in the palpable lack of a serving attitude towards the guests (which entails a relatively low quality of services, including business hours which do not meet tourists' expectations). This is particularly, though not only, visible in the hotels and facilities run by the Karlovy vary spa company.

2.3. Direction of structural changes in the region

The structural changes that took place in the region's economy during the last decade were rather slow and in parallel to the gradual loss of the region's position compared other regions of the Czech Republic. Despite its gradual deindustrialisation the region is still dominated by industry, mostly located outside Karlovy Vary), trade and services (mostly in Karlovy Vary, but also in other spa resorts⁷ and the region's major cities). Save for the industrial park in Cheb, there are few investments on the basis of which the subregion's competitiveness could be established.

We can say that the directions of change are diversified spatially. The town of Karlovy Vary has a slightly unfounded sense of its own attractiveness and of the quality of its spa services which, unfortunately, have not as yet made a name for themselves either at home or in the EU⁸. Sokolov is finalising a stage of its deep restructuring but no new investment projects or other successful forms of economic activity can be observed. On the other hand, Cheb is making efforts to develop its industrial park and attract new investors. The role of agriculture and industry is diminishing across the subregion but these changes are not substantial in terms of the actual figures. Many of the interviewees pointed out that despite of the significant resources found in the region, the shortage of skills to sell and promote the regional offer still remains a serious problem. The absence of quality vocational higher education institutions restricts the availability of highly-qualified personnel. At the secondary level, the school in Dalovice⁹ near Karlovy Vary can be quoted as an interesting example of cooperation between schools and business in terms of shaping the desirable educational profiles. According to the information obtained at the school, its graduates have no difficulties in finding a job, though not always in the region.

⁷ Besides Karlovy Vary, Františkovy Lázně, Mariánské Lázně, Lázně Jáchymov, Lázně Kynžvart.

⁸ Although three five-star hotels operate there already, which could be a sign that the standard will continue to improve.

⁹ *Stredni odborná škola logistická a stredni odborne uciliste Dalovice.*

2.4. Impact of external factors upon regional development

The main external factors that affected the subregion's development in the recent years included the restructuring policy involving the former state-owned industries (assets) which, however, was not accompanied by a sufficiently robust set of measures aimed to foster new forms of activity and to attract investors. Cheb was the only place where adequate steps were taken, timely and effectively.

Another factor is associated with the business cycle that negatively affects the subregion's development opportunities. It should be borne in mind, however, that the proximity of the strongly export-oriented German economy should act as a positive stimulus, which nevertheless is not sufficiently utilised by the subregional economy.

The next important factor is the liquidation of state borders (the so-called four freedoms¹⁰), which in many dimensions (also migration to other labour markets) facilitate the adaptation to, and integration with, the markets of other EU countries. For instance, in the recent years, it gave the Czech buyers access to cheaper shopping on the German side of the border.

Last but not least, the influx of EU funds created new opportunities for stimulating socio-economic development, although today's condition of the subregion does not show any symptoms of intensive growth. Similarly to many other Central European regions, their effects are more visible in terms of the quality of life (e.g. construction of the R6 road, numerous repair and modernisation activities) than in terms of fostering development (creation of new jobs and sources of permanent income), with the exception of the industrial park in Cheb. Nevertheless, access to EU funding is evaluated as very high, while a high level of employment in public services (35.4%) may not only be viewed as proof of the region's social problems but also of the considerable scale of domestic budget transfers.

In a nutshell, the restructuring efforts to date have been rather one-sided and mostly involved such activities in the state-owned sector. So far, the other side of the equation has been missing, that is there have been too few efforts aimed to create new forms of economic activity that could offset the lost jobs in former state enterprises and plants. The three districts, which apparently feel no sense of obligation to share a subregional community of interests, basically operate in isolation and choose not to seek any synergies nor success stories to follow (such as the industrial park in Cheb).

2.5. How does the situation on regional labour market affect social cohesion?

The labour market in the Karlovy Vary subregion seems rather stable, although not very strong compared to the rest of the country. According to the statistics from July 2013, with the overall unemployment rate in the Czech Republic at a level of 7.5%, the Karlovy Vary *kraj* with 8.76% unemployment was ranked the third last (being followed only by the Ústí nad Labem (10.96%) and the Moravia-Silesia (9.65%) self-governing region (CSU 2013). The internal disparities in the overall condition of the subregion are also illustrated by the data on unemployment, which is lowest in the Cheb district (7.24%), followed by Karlovy Vary (8.65%) and Sokolov (10.43%) districts (CSU 2013). The differences in the unemployment level in the individual districts of the region reach 30%. Some significant qualitative differences can also be observed: highest structural and long-term unemployment is recorded in the Sokolov district, with the greatest supply of labour mostly in the section of unqualified and support staff, particularly in the mining sector (GOLFER 2009: 30).

¹⁰ Of people, capital, goods and services (the latter still waiting to be fully put to life).

Therefore, even though the level of unemployment is lower than the European average, locally it is perceived as a serious threat, particularly in view of the fact that the average salary in the country in the first quarter 3012 was CZK 24,100, compared to CZK 20,500 in the subregion, i.e. 85% of the average, and still the lowest in the Czech Republic (finance.cz 2013).

The low income and salary level (compared to the country at large) and wide territorial disparities lead to the main subregional centres competing rather than cooperating with each other. The subregion is generally characterised by a relatively low degree of embeddedness (dating back to the changes taking place in the wake of World War II) and a limited sense of social ties, which are local rather than regional. This in turn is due partly to the condition of the economy and the persisting feeling of being threatened by marginalisation, and partly to the severance of the old administrative and economic ties with the major development centres of the Czech Republic (e.g. the Cheb district with Plzeň). On the other hand, the ethnic tensions with the Roma community, observable locally, seem to be mainly economic in character and are mostly related to collecting welfare benefits. Social frustration (also caused by insignificant development effects of the EU intervention and government policy) is a phrase quite frequently repeated by experts.

The present economic situation entails not only moderately high and slightly growing employment in the public services sector (35,400 jobs in 2008, i.e. 23.7% of total employment in in the subregion), but also public welfare expenditure, which in 2010 totalled CZK 80,500,000, and in 2012 – CZK 90,000,000 (see Table 2).

2.6. How can the accessibility of different public services (health care, child care, education and training, labour market and social) be assessed?

Taking into account the region's level of development, the accessibility of most public services should be regarded as satisfactory, although some problems can be encountered.

In the entire Severozapad (Northwestern) region comprising the Karlovy Vary subregion, the number of medical practitioners dropped slightly (from 3270 in 2007 to 3261 in 2011). In the Karlovy Vary subregion, their number increased,¹¹ from 1193 in 2010 to 1305 in 2012, which meant improved access and reduced number of residents per 1 medical practitioner, from 258 to 232. At the same time, however, the number of hospital beds fell from 1613 to 1487 (CZSO 2013).

In the sphere of education, practically no problems can be encountered with pre-school, primary and secondary education. The basic problem is the relatively small number of university students and the poor status of the higher education institutions in the region, where most learners attend the branches of schools located outside of the region. Likewise, little correlation can be observed between the offered courses and the needs of the new economy, which is commonly regarded as a serious problem as it encourages secondary school leavers to continue education in other academic centres. Similarly, the demographic slump does not bode well for the tertiary education in the subregion. The gradual ageing of the society will soon call for important adjustments to be made in the sphere of healthcare and social welfare. Any further reduction in the population (due to natural reasons but mostly emigration) may result in a complete reversal of the prevalent trend: in the

¹¹ Full-time equivalents (FTE).

recent years, the net decrease was growing fast and reached at level of -4.8% per annum in 2012 (CZSO 2013).

As far as the spatial dimension is concerned, the visibly inferior accessibility of most public services in rural areas is emphasised; this, however, could be considerably offset by a modernisation of the road network and better traffic management. One good solution would be to build a shared healthcare system together with the neighbouring German regions, with their well-developed, infrastructure with spare capacity, and considerable expertise. In such a situation, construction of a new hospital in the subregion would be less effective.

Table 1. Selected social sphere indicators

Indicator	2010	2012
Number of medical practitioners (FTE) per 10,000 population	39.8	43.5
Number of residents per 1 hospital bed	187.8	203.8
Number and percentage of children aged 3-5 in nursery care	number: 9,513 (=94%)	number: 10,390 (=92%)
Number of university students per 1000 population	24.3	23.3
Percentage of post-working age population (65+)	14.4	16.0
Unemployment rate	10.8	10.5

Note: FTE – full-time equivalents.

Source: prepared by the author based on the data from the Czech Statistical Office (CZSO 2013). The data on children in nursery care based on: CZSO 2013a (http://www.czso.cz/csu/2013edicniplan.nsf/engpubl/4003-13-eng_r_2013)

2.7. What are the sources and scale of social problems (poverty, inequalities, labour market exclusion)?

The low level of development (compared to the rest of the country) is the cardinal problem, epitomised by the commonly anticipated increase in unemployment, lack of visible effects of the EU co-funded intervention (other than infrastructure), as well as conflicts surrounding the use of public assistance both by those who have been made redundant and those who are widely blamed for never going to work and never intending to. As regards the latter, the experts' opinions often made references to the tensions with the Roma population (being of a local rather than subregional nature). As a consequence of the interactions between a number of different factors, it can be said that social problems mainly affect the elderly, large families and those where the head of the family has a low social status. In the spatial dimension, we can say that social problems remain the most acute in the Sokolov district, in the areas affected by high unemployment following the collapse of many former state-owned enterprises, and the resultant skills mismatch for needs of the contemporary economy (considerable supply of former mining employees in the Sokolov district).

Another serious problem is the lack of places (waiting list) in retirement houses (250, gradually decreasing) and shelters for the homeless (281, and increasing rapidly). The scale of the problem is potently illustrated by the social security expenditure.

Table 2. Social services expenditure in the Karlovy Vary subregion (in thousand CZK), 2010 and 2012.

Year	2010	2012
Community care service	62,806	64,421
Personal assistance	9,229	9,575
Distress care	694	942
Relief services	1,142	1,497
Day service centres	156	351

Day care centres	6,447	13,249
Total expenditure	80,474	90,035

Source: CZSO 2013.

The data shown in Table 2 illustrate not only the expenditure structure but above all the pace of the increase in spending, by 11.8% over merely two years, with the highest, approximately twofold increase being recorded for daily service and daily care centres. This phenomenon can be explained by the increase in the share of the population aged 65+, and by the changes in social service provision to people not requiring permanent care.

3. Development factors

3.1. What factors have played a key role in the development of the region in recent years?

Contrary to widespread expectations to foster development due to the subregion's location on the border with the highly-developed German *Länder*, this advantageous location has not been used to address the subregion's development needs. Even in Karlovy Vary itself, the jewel of the subregion, German visitors are clearly outnumbered by Russian-speaking ones, whose number is visibly growing across the Czech Republic, and to whom the tourist offer is increasingly directed (which does not necessarily mean that this is accompanied by the improving quality of services). The relative weakness of the tourist sector is evinced by the fact that, in 2012, no facility located in Karlovy Vary nor any other location in the Karlovy Vary subregion were ranked among the 20 most popular destinations (products) in the Czech Republic (CzechTourism 2013). The regions' potential for tourism (including Karlovy Vary) is considered as significantly underutilised. In 2012, various accommodation facilities (hotels, motels) in the Karlovy Vary subregion had 770.2 thousand guests (including 61.5 thousand in five-star and 349.4 thousand in four-star establishments) (which represents 5.6%, 5.8% and 8.2% for the country at large, respectively). With respect to overnight stays, there were 4,658.5 thousand such stays in the Karlovy Vary subregion, of which 243.7 thousand in five-star hotels and 2,280.3 thousand in four-star hotels (which accounted for, respectively, 11.8%, 10.2% and 20.0% stays in a given category in the Czech Republic) (CZSO 2013). This means that, in comparative terms, to, relatively few tourists use the services offered in the Karlovy Vary subregion, including better-quality services, whereas the incoming visitors usually come here for longer stays, typical of spa resorts. In December 2013, there were five five-star hotels in operation in the Karlovy Vary subregion (three in Karlovy Vary, two in Mariánské Lázně), which could portend the beginning of change in the quality offered by the subregional tourism.

The region has better and better transport links with the neighbouring areas of Germany, although this has not, as yet, had any palpable impact on the structure or modern character of the subregional economy. In the recent years, the proximity of the German shopping centres allows many Czechs to reduce the cost of buying staple goods; this means that, after many years, shopping tourism has changed direction, as until recently it was the Czech Republic that could offer more cheaper goods and services to German buyers.

None of the subregion's main economic centres is a sufficiently strong and attractive partner for Germany; therefore the increased transport along the east-west axis is mostly transit in character.

The opening up of the state borders following the accession to the Schengen Treaty facilitated migration (which was on the increase in the recent years), but had no major impact (except Cheb) on the building of modern economic ties (such as exports, attracting FDIs) with other EU countries. The closure of many huge state-owned enterprises led to changes in the size of plants in the enterprise sector, with the current domination of small and medium-sized businesses and sole proprietorship (sole trader) activity, which can hardly help establish and develop cooperation with large, modern enterprises. Due to the weakness of the tertiary education sector and the absence of R&D institutions and the overall poor operation of business-environment institutions (except the subregional chamber of commerce in Cheb), the subregion is not considered as very attractive by potential innovative investors. It is also ranked the last in the country in terms of R&D expenditure (CZK 98 million in 2008 and CZK 204 million in 2012, compared to CZK 808 million in 2008 and CZK 1118 million in 2011, respectively, in the Ústí nad Labem subregion, ranked one before last). The expenditure made in the Karlovy Vary subregion in 2008 represented 0.002% of total R&D expenditure in the Czech Republic in 2008, and 0.003% in 2012 (author's own calculations based on CZSO 2013).

In consequence, the major factors underpinning the subregion's development should be found locally, within the subregion itself, and in the national policy supported by EU funds.

3.2. What are the main obstacles that hinder the development process in the region?

The low attractiveness of the self-governing region (subregion) for investors (except the tourist sector, with some reservations) is apparently the major barrier. Undoubtedly, the deep restructuring of the state industry, usually with the aim of plant closure, led to the problem of unemployment that the local authorities have not been able to effectively deal with until today. Firstly, this is due to the mismatch between the skills and qualifications offered by the unemployed and those which are contemporarily sought by employers. The interviewees often expressed the opinion that the lack of a motorway connection with Prague is a serious problem. The relatively low quality of the human resources (including the sector as exposed to foreign nationals as tourism) is also viewed as an obstacle hindering development. This is partly translated into the lack of a sense of belonging or community in the subregion, which is now isolated from the former regional capitals. Another possible reason is the lack of subregional competences in business development, R&D or labour market¹². These are the likely reasons – in addition to the lack of job prospects and economic considerations – for the increasing emigration (-3.9% in 2012), which should not be regarded as surprising in view of high unemployment, particularly among young people aged 15-24 (26.4%) (CZSO 2013). Another pressing problem is the lack of employment offers for former employees of mining and other industrial sectors, especially support staff and unskilled workers (GOLFER 2009: 35).

It seems, however, that the crucial reasons underpinning this situation should be sought at an even deeper level: in the delayed restructuring process; lack of robust economic centres in the region that could provide top-quality R&D services and highly-qualified pool of labour for the region, which could also help actually (and not only superficially) foster the development processes governed by a new development paradigm. Just as with many other peripheral areas, this is by no means easy. For such a poorly developed subregion, changing the mentality is among the most daunting challenges; even

¹² It is not clear, however, whether the subregion was in a better situation if it had those competences.

the proximity of the border with a modern and wealthy region of Bavaria affects development only to a slight degree. This will not change as long as the Karlovy Vary subregion fails to alter its approach to development. That triggering such processes is possible is evidenced by the example of Cheb (the manifested historically-rooted community with Germany, openness to cross-border contacts and development of the industrial park).

Population ageing as a result of demographic changes and external migration is a strategic problem, one that the regions does not seem ready to tackle, instead hoping for central intervention in nearly all problematic issues.

3A. External context of development: trade and FDI

3.3. Whether the regional economy is export oriented and how this is related to overall productivity and innovativeness?

In 2005, the exports from the Karlovy Vary *kraj* accounted for 9.67% of aggregate Czech exports (ROP 2011); in 2008 it totalled CZK 50780 million, and in 2010 – CZK 51641 million. The European Union is the largest recipient of its exports (89.2%), with Germany and Poland being the main destinations (57.0% and 5.0%, respectively)(CZSO 2011). In 2005, the value of exports per capita in the subregion was CZK 160,300 (compared to the average of CZK 182,300 in the Czech Republic) (ROP 2011: 48). There are many indications suggesting that the subregion's exports increased in the later period. As mentioned above, the share of high-tech products in the exports is minimal. It should also be noted that the traditionally strong ties with Germany are gradually becoming weaker: as recently as 2008, the EU was the main destination (over 90%), and specifically Germany (63%)(EC CONSULTING 2010: 16).

On subregional level, the subregion is significantly dependent on low-tech exports to Germany, which is viewed as unfavourable in the long term. The primary export goods include: 'Machinery and transport equipment' (35.4% in 2010, an increase by 2.8 percentage points since 2008), and 'Manufactured goods classified chiefly by material' (29.8% in 2010, a decrease by 3.9 percentage points compared to 2008)(CZSO 2011).

The influx of foreign investments, mainly small companies from Germany, had a considerable impact on the region's technological advancement, and especially on its exports.

Trade exchange has absolutely no impact on the marginally low innovativeness of the subregional economy not only in comparative, but also nominal terms. All things considered, export activity has no bearing either on increased productivity or innovation: in 2008, the value of high-tech products exported from the subregion totalled CZK 537 million, to grow to CZK 589 million in 2010. This represented 0.2% and 0.1% of all high-tech Czech exports, respectively (based on CZSO 2013). With such low values, it is difficult to talk about any trends, but if any can be observed, it is definitely a negative, undesirable one.

According to some economists, the region is characterised by excessive dependence on the German market, especially in view of the fact that, with the exception of one company (a laboratory), solely low-tech goods are exported. The structure of the economy and its products deters highly-qualified employees and demanding investors. According to some economists, this has all the hallmarks of a vicious circle situation.

It should be borne in mind that incoming tourism is a form of hidden export; its role is emphasised by the 13.4% share of the subregion in the accommodation offered to foreign tourists in the Czech Republic (EC CONSULTING 2010: 9). According to recent (2014) data, the Russian-oriented tourist sector is facing real problems as Russians are not coming in the expected numbers.

3.4. Is the region was attractive for FDIs and what was the impact of these investments on regional economy?

On the whole, despite the inflow of small-scale financial capital from Germany, the subregion proved rather unattractive for inward capital, nor had it a lot to offer to external investors. With the exception of Cheb and its successful industrial park, the subregion was not capable of attracting new investment¹³. Generally speaking, however, even in the case of Cheb it is rather difficult to speak of the FDIs being translated into modernisation, enhanced productivity, competitiveness or innovation of the entire subregion. From the perspective of serious investors, the subregion has too weak economic centres (cities), poor human capital, weak R&D and tertiary education institutions, unstable consumer market, and lastly – development strategies based mainly on expenditure aimed to improve the quality of life (demand-driven), and not to foster development (supply-driven). It should be borne in mind, however, that self-governing regions do not have competences in business development, R&D or labour policies. Against such a backdrop, it is difficult to find arguments that could encourage potential investors to invest in the region¹⁴. This does not mean, however, that FDIs are altogether absent: these are mainly small low-tech German companies that do not need highly-developed business environment institutions in the subregion for their operation. Per capita exports are higher than the average for the Czech Republic, but being ranked 6th among the 14 subregions can hardly be seen as very impressive (EC CONSULTING 2010: 16). What gives rise to some concern is that the low price of the production factors is the basis for export, and not long-term innovation or competitiveness (*ibid*, p. 20 ff.).

3B. Endogenous growth factors: innovation and entrepreneurship

3.5. How innovative is regional economy and how this is related to educational and training system and its scientific base?

As mentioned above, the subregion is among the least innovative in the Czech Republic, largely owing to the absence of large cities (the biggest one has a population of some 50,000), weak higher education sector (only ca. 7000 students, and only one higher education institution having its seat in the region), far from modern economic structure and insignificant impact of foreign investments on the modern character of the subregion's exports. Similarly, there are no significant training institutions in the subregion. Altogether, it can be said that this is a model vicious circle situation: the subregional economy does not generate enough jobs (especially those that demand high qualifications), as a result of which there are few young people receiving education at the tertiary level, which leads to the outflow of human resources and little interest on the part of potential investors, particularly innovative ones. The 0.1% share in the high-tech exports from the Czech

¹³ To date, the zone in Ostrov near Karlovy Vary has proved a failed initiative.

¹⁴ Tourism economy may be the sole exception, but there are no data that could provide a financial perspective for this phenomenon.

Republic is a symptom of the subregion's backwardness rather than development. The authors of the diagnostic expert study prepared for the 2007-2013 development strategy highlighted the following features that can cripple the innovativeness and competitiveness of the subregional economy:

- Relatively obsolete machine stock,
- Lack of colleges and universities of technology,
- Poor linkages between science, research, development and practice,
- Lack of opportunities to test technological innovations, ideas and proposed improvements in company operations (mainly with respect to SMEs) (EC CONSULTING 2010: 20).

3.6. How important is the sector of SMEs in the regional economy and what are the main linkages of firms?

In 2009, 81,351 businesses (that is about 2700 per 10,000 population, nearly all of them SMEs) were registered in the Karlovy Vary subregion, of which the highest number (almost a half) were registered in the Karlovy Vary district, one third in the Cheb district and one fourth in the Sokolov district. The main spheres of activity included trade, manufacture and repair of cars and consumer goods (28.6%), in addition to construction (11.1%) and industry (10.8%). Mostly, these were sole traders (sole proprietorship), micro- and small businesses, competing with price and not the quality of products or services. The vast majority of businesses operate in the cities. In the territorial dimension, the capital Karlovy Vary and the remaining district capitals, Cheb and Sokolov, concentrate their largest number. In terms of quality, it is open to discussion which economy is more competitive and innovative, that of Karlovy Vary or of Cheb. Given the overall low level of the region's innovativeness, these differences are insignificant, and the difficulties in evaluating them are mostly due to the dissimilar economic structures.

3.7. Are there any clusters within the region and if yes – what are their main specialisations?

Due to its internal dissimilarities, it is difficult to indicate any specialised industrial clusters within the subregion, and few cooperation linkages were developed between businesses. Of 51 Czech clusters listed in the academic website of the MAGNANIMITAS association, not even one cluster located in the Karlovy Vary subregion could be found¹⁵. The network of companies and businesses around the lignite mine could potentially become a subregional cluster; spas operate more in a context of national health resorts.

4. Governance and local/regional development policies

4.1. What was the outcome of regional development strategy implementation?

Judging from the effects of the strategy (expressed and updated in 2010 as the "Programme for the development of the Karlovy Vary region in 2007-2013"), observable in the Karlovy Vary subregion, in the opinion of most respondents, none of its goals have been achieved in full, while initiatives aimed

¹⁵ The expert's study prepared by EC CONSULTING (2010) emphasised the isolation of businesses in the subregion.

to improve the quality of life have been completed to the greatest extent (although with a number of reservations). Let us recall that the strategic objectives for 2007-2013 were as follows:

- A. To improve the competitiveness of the subregion's economy (including four priorities: development of enterprise; development of infrastructure; development of tourism and spa tourism; development of human resources);
- B. To enhance the subregion's attractiveness for its residents (including four priorities: natural environment protection; development of social services; development of healthcare; administration) (PRKK 2010, strategická cast).

Since this strategy – at least in the version published on the website of the subregional government – was not accompanied by information on the planned implementation costs, it is difficult to conclude which goals and priorities were prioritised in practice. The interviews with the regional experts clearly indicate that the anticipated objectives have not been fulfilled. The statistical data on the region's situation suggest that the subregion's major problems: modernisation of the economy, improving its competitiveness and innovation, solving the problems of the labour market where there is neither quantitative nor qualitative balance between demand and supply, are far from over. The example of the industrial park in Cheb, even though it supports businesses which are not substantially innovative, has not to date been followed in any other district. The subregion's relatively high export orientation is positive on the one hand, but on the other it does not arouse the enthusiasm of experts due to its excessive dependency on the German market, the low-tech character of the exported goods and competing mainly with prices, and not quality.

One unquestionable tool for the implementation of the strategy was primarily (but not only) the regional operational programme SEVEROZAPAD 2007-2013, which comprised two subregions: Karlovy Vary and Ústí nad Labem. The ROP (in its 2011 version) identified three specific objectives:

- I. Modern and attractive cities representing the main driver of the region's economic development;
- II. Rural areas utilising the local and regional potential for a fully-fledged (*plnohodnotné*) life of their citizens;
- III. An accessible region facilitating citizen mobility (ROP 2011: 117).

These objectives were planned to be achieved via the following five integrated priority axes:

- P1. Urban revitalisation and development;
- P2. Integrated support to local development;
- P3. Region's transport accessibility;
- P4. Sustainable development of passenger transport;
- P5. Technical Assistance (*ibidem*, p. 118).

A review of the list of projects co-financed from the ROP in the period until 31 August 2013 (List of beneficiaries 2013)¹⁶ leaves no doubt that the awarded funds were spent mostly on repairs/renovations and construction of facilities associated with the quality of life (such as sports and leisure centres, sport arenas, culture centres, tourist trails, welfare services investments, libraries, construction/renovation of town halls, modernisation of hospitals, repairs of facilities and streets (erroneously dubbed 'revitalisation'), recreation zones, modernisation of transport infrastructure, regional promotion, etc.). Only a small part of funds was expended on economic goals (construction/extension of hotels and accommodation facilities; ski stations; golf courses; presentations promoting subregions and individual sites; advertisements; marketing studies; analyses, etc.). In exceptional cases, grants to hotel-related projects exceeded CZK 100 million (Tchaikovsky Spa Hotel) and investments in ski stations (firms) - CZK 200 million (Plesivec skiing station), whilst grants from the part addressed to the local authorities quite frequently were in excess of CZK 300 million (such as local road projects; technical training centre in Ostrov; museum reconstruction in Ústí nad Labem; purchase of modern rolling stock, etc.). Altogether, the expenditure on these projects totalled CZK 16,478,644,099 (including CZK 15,045 269,448 from the ERDF). As the total number of projects was 319, we can say that one project on average had a value of CZK 51,657, that is ca. EUR 1878, and the average ERDF grant was EUR 1715¹⁷. With such a considerable fund dispersion among the municipalities and subregional authorities, it should not be found surprising that the situation in the subregion, despite its receiving a massive amount of EUR 547.1 million from the EU Cohesion policy, has not changed considerably.

4.2. Has the existing governance model in the region been effective and efficient?

Owing to the lack of a distinct and highly developed core city in what is the Czech smallest and a poorly developed subregion, managing development is certainly more complex than in other subregions which have a strong and unquestionable leader (a growth pole). On the basis of both the respondents' opinions and strategic experts' studies, it should be emphasised that the subregion, established in 2000, comprises distinctly dissimilar areas which have not as yet been integrated and which are competing against one another. The Cheb district has well-established linkages (infrastructural, economic and social) with the Plzeň subregion, whereas the Karlovy Vary region – with the Ústí nad Labem subregion. In between them lies the Sokolov district, characterised by a considerable percentage of natural areas, collapsing traditional industries, high structural unemployment and a relatively higher level of social tensions, including ethnic tensions. This is the structural situation of the competing districts, each of which believes to be one in special need of governmental support; in effect, no management model can prove to be effective or efficient. In addition, civic society operating in such conditions will inevitably adopt a district rather than a subregional attitude. The example of business-environment organisations (chambers of commerce, chambers of crafts) shows that they are not particularly strong and, despite many attempts, do not play any significant role in regional development. The structure of companies and enterprises (and particularly the shortage of large private enterprises) does not facilitate any broader-scale development initiatives by the entrepreneurs alone. Coordination and consultation activities,

¹⁶ It must have been a simple omission in the title of the list of beneficiaries/projects, where the region's name, Severozapad (Northwest) was erroneously translated into English as Southeast.

¹⁷ At the exchange rate of 1 EUR = CZK 27.5.

especially in the sphere of regional planning and spatial management which are offered mainly by the subregional authorities, have only a limited impact on an integrated functioning of the subregion. The intra- and inter-regional disparities and linkages are strongly rooted in history and are of critical significance in such a small and economically weak subregion.

The interviews suggest that the poor coordination of pro-development activities was also a consequence of poor coordination at central level, where many departments of the state would prepare partial interventions on an arbitrary basis. Therefore, the opportunity for a forced top-bottom coordination was not sufficiently taken advantage of. Most likely, too, this was not made easier by the fact that the two subregions incorporated into the Severozapad region face similar development problems, which to date has fostered competing for funding rather than cooperating in order to solve problems.

4.3. What was the outcome of local/regional policies in different fields?

It was emphasised that the policies which were pursued (with a strong financial support from the EU programmes) helped mainly to develop infrastructure and improve the quality of life (although, in the long term, it will not be possible to keep up the latter without robust economic development). The key achievements in this area include:

- Modernisation and development of the subregion's transport system,
- Revitalisation of urban areas (historic monuments, urban systems, tourist centres, particularly spas),
- Modernisation of schools,
- Improving the condition of the natural environment.

The achievements in the sphere of economic development were not evaluated as highly. In this area, development of transport and operation of spas in the subregion were regarded as major successes, in addition to the effects caused by the launch of the industrial park in Cheb (for exports and the labour market). Other than those, mostly the weaknesses were pointed out, viz.:

- Low level of innovation and competitiveness of the economy,
- Absence of higher education institutions,
- Lack of balance between demand and supply on the labour market (in terms of quantity and quality),
- Brain drain, migration.

Most importantly, despite all the expenditure made in the subregion, neither the economic structure has been modernised nor the structural unemployment has been overcome.

5. External interventions: national policies and EU cohesion policy

5.1. Which type of policies (regional, sectoral, horizontal policies) have had the most significant impact on regional development in recent years?

It is hard to say. The experts also failed to agree on this issue. It should be noted, however, that the study was conducted at the subregional level (NUTS 3), whereas the European ERDF intervention in

the form of operational programmes was delivered at the level of governmental regions (NUTS 2), at which, according to many of the interviewees – the subregion’s needs were not satisfactorily addressed. Nonetheless, it was believed that the ROP had a greater impact on the region’s development, probably due to better communication with the ROP managing authorities at the regional level (NUTS 2), than with the managing authorities of the sectoral programmes. This opinion probably referred to influence on the project selection rather than on the influence of the projects on development, as well as to closer links with the subregion’s needs as perceived by the subregion’s communities and their authorities (which, as we know, preferred to spend the funds on infrastructure and quality of life). On the other hand, investment projects in transport infrastructure were highly evaluated, although the major such projects were financed from the national (sectoral) programmes, and not the regional programme. As a rule, horizontal labour market interventions were not regarded as very successful, which should not be found surprising in view of the fact that even the best training programmes cannot change the obsolete economic structure. On the other hand, improved environmental quality was highly evaluated (although this was achieved not only with European funding).

If we understand development – as do the regional authorities – mainly as investments in infrastructure and improving the quality of life, the regional operational programme and the sectoral programmes (mostly transport development) are of crucial importance. If, however, we understand development first and foremost as creating new (and better) jobs and sources of income, despite extensive expenditure, none of these policies had any lasting impact fostering development.

According to some respondents, the national (i.e. sectoral in this context) interventions lacked any reference to the specific situation of the subregion, which is strategically important owing to its geographic location and the weakest one economically. It was also emphasised that the perhaps unfounded belief in the development potential of the subregion’s spa resorts, Karlovy Vary in particular, turns the attention of the central authorities away from the real problems that the subregion is facing.¹⁸ Generally, respondents often expressed their conviction that the weaker regions in need of support are not sufficiently considered nationally, and their considerable potential is frequently underestimated.

5.2. Does the structure of external intervention (national/EU) addresses regional needs?

The expenditure from the EU Cohesion policy in the 2007-2013 period can be estimated at ca. EUR 547.1 million from the regional operational programme alone. Projects from the sectoral and horizontal programmes also received co-financing, plus there was the required beneficiary’s (i.e. Czech) own contribution. On the basis of interviews with regional experts and analysis of statistical data, it can be concluded that these funds were in most cases expended in the subregion on the development of infrastructure and improving the quality of life. As a result, they had no significant bearing either on economic development or positive structural change. To some extent, the final evaluation depends on how the concept of being commensurate with the needs is understood. If any

¹⁸ But should that not be viewed as proof of the propensity to shirk responsibility and ‘delegate’ it to the superior authorities? In fact, however, the EU system of structural interventions, usually based on calls for projects, allows to choose most pro-developmental projects - provided that they indeed have this quality, and whether they do or not depends on potential beneficiaries alone.

of the subregion's needs have been satisfied, certainly these were not the ones most associated with growth.

5.3. Has the Cohesion Policy resulted more strongly in the improvement of economic potential or competitiveness, or has it rather affected social well-being?

As mentioned above, the Cohesion policy funds were mostly spent on projects aimed to improve the living conditions of the local residents. In consequence, it is difficult to see any structural changes in the subregion (such as enhanced level of innovation and competitiveness, containing the migration of residents from the region, lesser unemployment in areas with highest structural unemployment, etc.).

In terms of development expenditures, funds spent on the development and modernisation of road infrastructure are listed most frequently, in particular the R6 road project, although there is no evidence that this road had any impact on regional development, also because of the fact that it is an internal regional road.

Support to enterprises is also listed in this context, even though not every form of such support can bring positive effects for growth.

Similarly, the development of tourism (particularly spa tourism) and passenger traffic was listed.

It should be borne in mind, however, that the final opinion on the outcomes will not be possible until the final evaluation of the operational programmes is completed.

6. Future prospects

6.1. What are the main opportunities and threats for the development of the region ?

Opportunities significantly depend on how factors fostering or hindering growth are perceived, which in turn is determined by the prevalent paradigm. The subregion's main development opportunities include, among others, the following:

- development of services (except for the Sokolov district, the subregion was not a particularly industrialised one),
- development of tourism (particularly spa tourism, also active and culture tourism) and travelling,
- continued prudent embedding in the EU economy,
- better coordinated and informed use of EU funding to foster regional development.

On the other hand, the main future threats include:

- adverse demographic changes associated with population ageing;
- lack of significant business investment projects due to the structural weaknesses of the regional economy,
- deteriorating competitiveness of the subregional economy due to its low level of innovation,
- increasing migration of well-educated people to dynamic urban centres at home and abroad.
-

6.2 What would you specify recommended future objectives (spheres) of national development policy?

From the perspective of the weakest subregion in the Czech Republic, the following goals of the national development policy could be proposed:¹⁹

- **focus on projects which help create new, better jobs** – which include tasks aimed to modernise the stock of machinery and technical facilities in order to enhance competitiveness,
- **creating mechanisms that foster cooperation between business and R&D centres** in the neighbouring big cities and development of business-environment institutions,
- making the compensation for labour market intervention dependent on effective employment of the unemployed who receive support (**success fee** as the basic mechanism),
- **providing support only to strategic infrastructure investments**, which pose an obvious obstacle to development and which have a demonstrable correlation with growth.

6.3 Recommended future objectives (spheres) of the EU Cohesion policy?

In terms of the development needs of a peripheral subregion, the following European policy goals can be suggested:

- **focus on economic development** (support for enterprises and investors),
- **reinforcing a mechanism for cooperation between academia, business and administration** in order to promote innovation,
- **integrated approach to the development of urbanised functional areas**,
- **integrated management of the transport system** (and, where absolutely necessary, removing infrastructural barriers to economic development),
- **strengthening the role of cross-border cooperation programmes**, which should focus more on creating new jobs and sources of income, and coordinated with other development programmes.

In addition, it is recommended to ensure close coordination between Common Agricultural Policy projects (Pillar II, development of rural areas) and Cohesion policy and to reverse the proportion of expenditure between the first and second pillars of CAP to address the fact that rural citizens and less and less frequently farmers.

¹⁹ The author is aware that, in the opinion of many residents and representatives of the regional authorities, the intervention structure pursued so far best addresses the needs and expectations of the subregional community. The absence of structural effects to date and the subregion's still closing the development ranking of the Czech subregions lends credence to the opinion that such a policy is in need of a radical change.

7. CONCLUSIONS

7.1. What are the main trends in restructuring the regional economy?

The first phase of the restructuring process of the Karlovy Vary subregion was completed, with the exception of the Sokolov district, where preparation to close down the lignite mine is under way. At present, the restructuring efforts are largely limited, which has probably been the reason for the increasing outflow of the population. Slowing down or even halting of the structural changes is mostly due to the absence of modern strategic concepts (which can be translated into development projects) and lack of a strong economic centre that could act as a leader of growth and agent of change in the subregion. In effect, the available funds are mainly spent not on long-term development but on infrastructure projects which are, at best, remotely connected with growth, and on projects which are clearly aimed only to improve the quality of life. It should be noted that, outside the experts' community, as yet very few people in the region are aware of this problem.

The predominant directions of change in the recent years were not revolutionary in nature and were associated with:

- decreased role of agriculture in employment and creating GVA,
- slow deindustrialisation leading to a further release of poorly-qualified staff capable of doing jobs for which there is no labour market demand,
- development of small enterprises producing cheap and poor quality products and semi-products for export (mostly to Germany),
- renovations and investments in municipal economy and tourism, particularly spa, active and culture tourism, coupled with few changes in the quality of customer service,
- increase emigration of well-qualified people, mostly young, who are forced to seek work outside of the subregion,
- increasing demographic changes (ageing of the population),
- slight decrease of the still dominant share of Germany in the subregion's exports.

Structural changes are practically non-existent, which means that the intervention in the development processes made to date has been largely misplaced, as it has mostly supported investment projects improving the quality of life, which could soon prove too costly to be maintained by the economy of the rather poorly developed subregion.

7.2. What factors of regional development were the most important (exogenous, endogenous, structural, socio-political, others)?

The region's situation is by far most determined by exogenous factors, i.e. restructuring programmes of the state enterprise sector and, contemporarily, factors which are only seemingly exogenous. This is because even though the structure of the EU Structural Fund intervention programmes is determined centrally, how it is ultimately formed depends on the needs and expectations of beneficiaries, mainly local and regional authorities. In consequence, as can be easily checked by analysing the list of projects in e.g. the regional operational programme, the component of 'quality of life improvement' definitely prevails over support to development. As a result of such intervention, which in fact bends rather heavily to accommodate the local expectations, the subregion undergoes

petrification, the problems do not go away, and the subregion occupies the last place in the ranking of the Czech subregions. Worse still, as in nearly all poorly developed regions, the influx of 'free' funds to the subregion inevitably breeds dependence on external aid, fuels the demanding attitudes among the authorities and attributing the responsibility for structural stagnation to entities from outside of the subregion. Since the subregional and local authorities demonstrated that they are not able to manage the intervention so as to ensure that the existing barriers are overcome, perhaps the strengthening of the exogenous dimension, more integrated (temporarily) sectorality of the intervention would provide an opportunity to change this situation? And would be a move in consequence of which the subregion will become more capable of addressing the relevant issues on its own? It can be said that, in a nutshell, the development problems observable in the Karlovy Vary subregion are not solely due to the existing obsolete economic structure that generates many social problems, but also to the way in which the regional and subregional elites understand contemporary development factors. It is therefore necessary to implement a new paradigm as quickly as reasonably possible. The EU proposal to use 11 thematic priorities starting from 2014 and thus force concentration on selected priorities, as any regulation, is fraught by a fundamental flaw: it is easy to find a legal loophole to circumvent them. Following the EU regulations to the letter but not in the spirit they were intended is a frequent phenomenon in many European regions and countries, and in poorly developed regions.²⁰

7.3. Has the productivity growth been related to the increase of the innovative capacity of the region?

Increased productivity of the subregional economy does not depend on the virtually non-existent capacity for innovation. It is more dependent on the modernisation of the stock of machinery and technical facilities, employment downsizing as a result of the restructuring of former state enterprises and slow deindustrialisation. The increased role of the financial and real estate sector is not a source of innovation. The lack of innovative capacity has a number of reasons, discussed above, and is commonly regarded by experts as one of the crucial threats to the region's development, especially that further competing with the prices of the production factors is soon bound to encounter obstacles. Continued financing of internal demand by transfers (social, structural and other) still plays a sizeable role, but this opportunity will end, sooner or later.

7.4. Are social disparities and economic growth within the region interlinked? And how? (lower level of inequalities and exclusion / higher growth? or?)

There is no demonstrable evidence to prove the correlation between the level of social disparities and the region's development. This is mainly due to the fact that this development largely relies on external intervention and, at most, produces a new type of disparities, based on the division into those who are direct beneficiaries of the support funds, and those who are not. In turn, greater unemployment is offset by increased social policy expenditure and employment in the 'grey' economy, popular particularly in tourist centres/destinations.

²⁰ Repairs and renovations instead of revitalisation, sports arenas and swimming pools built on the pretext of developing tourism, refurbishments of town halls and seats of local authorities made on the pretext of supporting culture and, last but not least, spending money instead of achieving pro-growth results. These are examples of replacing supply effects with so much easier demand effects from the last decade, from across Europe, especially its less-developed parts.

7.5. What were the most successful regional/local policies?

It is difficult to decide whether, and which, regional policies have been more effective or successful. There are grounds to believe that the greatest progress has been achieved in education, with its considerable expenditure on refurbishments, modernisation of facilities and, partly, on its better adaptation to the labour market needs. Considerable outlays have been made on repairs of buildings and whole blocks of buildings, which helped many cities and localities of the subregion, its many historic monuments and tourism centres regain their former splendour. Many sports arenas have been constructed. Financial support has been granted to repairs, renovations, extensions and modernisations of cultural, health care or welfare facilities. Considerable funds have been, with quite a success, expended on the protection and conservation of the natural environment (the condition of which happened to be relatively satisfactory, excluding the Sokolov industrial area). In comparison, outlays made on enterprises seem both insignificant and dispersed. Worse still, they seem to bear little relation to innovation. Similarly, no significant incentives have been created to attract foreign investors, especially relating to large-scale or highly innovative production.

In conclusion, it can be said that, in some areas, considerable funds have been spent and significant effects have been produced. These effects, however, were mostly limited to the quality of life. To what extent can this be considered a success? If we set them against the adopted strategic objectives, we can only reiterate the opinion voiced by experts: that none of the strategic objectives have been fully attained.

7.6. Has the external intervention been important for development of the region?

External intervention has played a role in the region's development that is rather difficult to evaluate. Above all, this is due to its predominant emphasis on projects aimed to improve the quality of life and infrastructural projects that in many cases had little if anything in common with the region's development, and in fewer cases focused rather inconsistently on development. To some extent, it might be attributed to the competence structure of the self-governing Karlovy Vary region (subregion); however, there is no evidence that, with competences in business development, labour market or R&D the subregion would implement a different policy in any significant way. Despite all the support granted to enterprises, the level of innovation of the subregional economy still remains the lowest in the Czech Republic, so as high-tech exports. Save for Cheb, it has not even been possible to start industrial parks (special economic zones) to attract inward investors, let alone any initiatives in the innovation sector). The road investment projects have been or are being carried out practically in isolation from a broader, existing transport system (including for example the R6 motorway built in the central part of the region, but unconnected with the country's main transport corridors).

We tend to forget that financing development using external grants and assistance is fraught with the risk of misplaced allocation of funds, producing dependence on external aid and losing the capacity for strategic growth management. This threat is particularly pronounced in the Karlovy Vary subregion, with its absence of a single city that would attract new investment owing to its extensive education and R&D facilities or its well-developed, large consumer market, especially in view of the fact that its constituent areas tend to compete against, rather than cooperate with one another.

Let us conclude with the questions: does the Karlovy Vary subregion have sufficient human, capital and organisational resources to be able to develop, on its own, an institutional and economic system

that is strong enough to compete successfully in the global market? Theoretically, subregional development problems and social frustration visible during the time of the visit, in the short run could at least in part be explained by the European economic crisis. In the long run, however, the global changes and challenges, for which the Karlovy Vary subregion does not seem to be ready yet, seem more important. Unfortunately, this is typical of many less-developed European border regions.

LIST OF INTERVIEWED INSTITUTIONS:

1. Krajský úřad Karlovarského kraje (odbor regionálního rozvoje) (Office of the Karlovy Vary Subregion (regional development department))
2. Karlovarská agentura rozvoje podnikání, p.o. (Enterprise Development Agency in Karlovy Vary)
3. Cheb Municipal Office
4. CzechInvest, branch in Karlovy Vary
5. Fakulta ekonomická, Cheb, branch of the University of West Bohemia in Plzeň
6. Vysoká škola Karlovy Vary (Higher Education Institution in Karlovy Vary)
7. Okresní hospodářská komora Cheb (District Chamber of Commerce in Cheb)
8. Regionální hospodářská komora Poohří (Regional Chamber of Commerce for the Poohří Area), Sokolov
9. Střední odborná škola logistická a střední odborné učiliště, (Secondary Logistics Vocational School and Secondary Vocational Training Centre), Dalovice

IDIs were conducted with 12 experts employed in these institutions.

REFERENCES

Netolický M., 2007, *Rigorozní práce. Vazby mezi státním rozpočtem a územními rozpočty*, Právnická fakulta Masarykovy Univerzity, Brno

CSU (Krajská správa CSU v Karlových Varech), 2013, *Nezamestnanost v kraji podle MPSV k 31.*, http://www.czso.cz/xk/redakce.nsf/and/nezamestnanost_v_kraji_podle_mpsv_k_31_7_2013 (accessed on: 15.12.2013)

Finance.cz, 2013, *Průměrná mzda v Karlovarském kraji 20.501 Kč opět nejnižší v ČR*, <http://www.finance.cz/zpravy/finance/354847-prumerna-mzda-v-karlovarskem-kraji-20-501-kc-opet-nejnizsi-v-cr/>, accessed on: 12.12.2013

CzechTourism, 2013, *Návštěvnost turistických cílů v roce 2012*, <http://www.czechtourism.cz/institut-turismu/aktualni-informace/nejnavstevovanejsi-cile-turistu-prazsky-hrad-and-ostravsky-industrial.html>, accessed on: 20.12.2013

- CZSO (CSO), 2013, Statistical Yearbook of the Karlovarsky Region 2013, <http://www.czso.cz/csu/2013edicniplan.nsf/engp/411011-13>, accessed on: 31.12.2013
- CZSO (CSO), 2013a, http://www.czso.cz/csu/2013edicniplan.nsf/engpubl/4003-13-eng_r_2013, (courtesy of Jiří Blažek)
- CZSO (CSO), 2011, http://www.czso.cz/csu/2011edicniplan.nsf/krajkapitola/411011-11-r_2011-05
- MAGNANIMITAS, 2013, <http://www.magnanimitas.cz/klastry-ceska-republika>, accessed on: 22.12.2013
- GOLFER s.r.o., 2009, *Potenciál výrobních areálů a jejich přínos pro hospodářství Karlovarského kraje*, Karlovy Vary, http://www.kr-karlovarsky.cz/samosprava/dokumenty/Stranky/koncepce/seznam/potencial_vyrobnich_arealu.aspx (accessed on: 10.12.2013)
- PRKK (Program Rozvoje Karlovarského Kraje; *strategická část*), 2010 (<http://www.kr-karlovarsky.cz/samosprava/dokumenty/Stranky/koncepce/seznam/PRKK.aspx>), (accessed on: 12.12.2013)
- EC CONSULTING, 2010, PRKK (*Program Rozvoje Karlovarského Kraje; socioekonomická analýza*), EC CONSULTING a.s. (ekspertyza na zamówienie władz subregionu), (<http://www.kr-karlovarsky.cz/samosprava/dokumenty/Stranky/koncepce/seznam/PRKK.aspx>), (accessed on: 12.12.2013)
- ROP, 2011, Regionalni Operacni Program NUTS II Severozapad pro obdobi 2007-2013 (2011 version), <http://www.nuts2severozapad.cz/ropsz/ropsz-info/dokumenty> (accessed on: 27.12.2013)
- List of beneficiaries*, 2013, <http://www.nuts2severozapad.cz/ropsz/zrealizovane-projekty>, accessed on: 27.12.2013)