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SUSTAINABLE REGIONAL DEVELOPMENT – THE CASE OF NORTHEAST PLANNING REGION IN THE REPUBLIC OF MACEDONIA AND THE KYUSTENDIL DISTRICT IN THE REPUBLIC OF BULGARIA

The paper argues that cross-border cooperation is important for border regions for building productive economies and inclusive societies. It justifies also the need of integrating sustainable development principles into regional development practice. The paper analyses levels and dynamics of key socio-economic indicators of the Northeast Region of Macedonia and Kyustendil district in Bulgaria such as – regional GDP, gross value added, employment, economic structure, demographic indicators. It concludes by presenting prospects for development of cooperation in the observed regions.

Keywords: regional development, cross-border cooperation, Northeast Region of Macedonia, Kyustendil district in Bulgaria

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1. Border regions

Border areas traditionally are considered as disadvantaged and low opportunity regions. The geographical coordinates of such areas are expected to have a low competitiveness profile for one or more of the following reasons: (i) low population densities and lack of

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agglomeration economies; (ii) a peripheral location and an isolated position with respect to the economic and political heartland of their country, resulting to relatively high transportation costs; (iii) limitations to physical flows of commodities, limited markets and distorted trade relations; (iv) a relatively poor infrastructure – transport and communication networks, etc.; (v) a less developed social and business service provision and large differences in legal, administrative and social welfare systems, which altogether hamper communication and cooperation with regions across the border. National border regions, especially for not quite developed countries, as a rule are characterized by lower than average levels of development.

OECD Regional Outlook (OECD, 2016) shows that while gaps in GDP per capita across OECD countries have narrowed; within their own borders' countries have increasing income gaps among regions, cities and people. There will always be interregional gaps, but those border regions lagging behind have opportunities to “catch up” in terms of social and economic development by developing cross-border relations.

Cross-border cooperation (CBC) brings together the communities on both sides of the border. It helps to transform the border into a possibility for development. A border is more than an obstacle to contacts; a border also creates “friction” which can offer business possibilities (Järviö, 2011). Differing conditions across the border can therefore be utilised to benefit regional development. Utilisation of a border as a gateway means that the border is a resource for those operating across it. It generates benefits that would not be available without the border.

Cross-border relations creates also possibilities for sustainable regional development (SRD) that refers to the integration of sustainable development principles into regional development practice (Clement et al., 2003). Accordingly, SRD encompasses all activities and instruments that promote sustainable development within regional economic initiatives. This focus is justified firstly by the important role of regions as intermediaries between national and local levels, and secondly by the growing consensus that sustainability is an essential criterion within future regional development.

1.1. CBC in Bulgaria and Macedonia

Due to their peripheral geographical location, far from the economic centre of Europe, Macedonia and Bulgaria cannot ignore the importance of cross-border relations. The development of cross-border activities is of special importance for the bordering regions of these countries that have low economic and social performance in comparison to the national average and have common borders only with Balkan countries.

Cross-border cooperation (CBC) plays a very different and significant role to the small Balkan countries than it played in Central European countries. This is primarily because the potential for other forms of cooperation is not so favourable for these countries. So intra-regional relations are foreseen to play an increasingly important role for the countries from the Balkan region.

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In the same time, one should have in mind that the Balkan region is a severely parcelled economic area. Borders function as a real barrier to economic activities and do not allow development axes to expand easily beyond borderlines. This is one of the main reasons for the unfavourable development of the border regions and for the increase of regional divergences inside every given country. For the isolation of the border regions of the Balkan countries certain impact has also the fact that not only the development axes do not cross, but also it is not observed spillover of zones with a high population density between the borders.

2. Northeast Region of Macedonia

In 2007, under the imperative to harmonize its laws with the EU, Macedonia adopted the Nomenclature of Territorial Units for Statistics (NUTS 3 level) and created eight statistical regions: Vardar, East, South-West, South-East, Pelagonija, Polog, North-East and Skopje. These regions serve as main units for development planning. Moreover, they have been assigned the role of planning regions entitled for the planning process and implementation of a consistent regional development policy and for harmonization with EU regional policy.

The Northeast Planning Region consists of the municipalities in the far North-eastern part of the country, along the borders with Kosovo, Serbia and Bulgaria. The total area of the region is 2,310 km², i.e. 9.3% of the total territory of the Republic of Macedonia. This planning region consists of 6 municipalities (Kumanovo, Lipkovo, Staro Nagorichane, Kratovo, Kriva Palanka and Rankovce) with 176,018 inhabitants (8.5% from total population in Macedonia). Communication with Bulgaria is conducted through Kriva Palanka.

According to the level of development, the Northeast planning region is the economically least developed planning region in the Republic of Macedonia. Its share in the Gross Domestic Product of the Republic of Macedonia is at a modest level of 5.0% (for 2014), which is much less than the share (9.3%) of the region in the total territory and the total population of the country (8.5%).

The acceleration of the economic activity in the region and the gradual escape from the crisis since the end of last decade affects to increase the GDP per person from 4,5 % in 2009 to 5,5 % in 2012. However, the share again decreased and reduced to 5.0% in 2014.

Another important factor that is related to the level of development of the region is the average gross/net wage paid per employee. Northeast region has the lowest level of wages compared to all other regions. For 2016, the average net wage of a single employee in the Northeast region was only 68.3% from the average salary in Macedonia.

The Northeast planning region in 2016 had 4,095 active business entities and compared to 2010, the number of active entities decreased by 6.86%, while the decreased number of active entities in the Republic of Macedonia was 5,27%.

The most valuable sectors in the economic activities are the industry (food, chemical and metal, tobacco and cigarettes) and construction. The Northeast Region had the lowest share of 2.1% in total gross fixed capital formation in 2014.

By measuring which sector has the biggest gross fixed capital formation – it can be seen that this sector is construction (52.34%), and this percentage is higher than the average in the Republic of Macedonia.

Otherwise, the construction sector showed increased marks by the value of the construction activities. In 2016, 147 building permits were issued, while the value of the construction work was 1 billion and 73 million Macedonian denars (MKD).

Another important indicator for economic development of the region is *Gross value added, by sector of activity*. The current structure of businesses by sector of activity in the Northeast Region of Macedonia shows that dominant sector according to the gross added value is the Wholesale & retail trade, repair of motor vehicles & motorcycles, transportation and storage; accommodation & food service activities with 29%, followed by the sector of Mining, manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities with 18% and the sector of Real estate activities, plus imputed rents with 16% and the Public administration and defence with 14%.

3. Kyustendil district

The Kyustendil district is one of the five NUTS 3 regions forming the Southwestern region of Bulgaria (NUTS 2 level). Specific for this region is the big difference between the districts – on the one hand, the highly developed metropolitan area – Sofia city district, and on the other hand, Kyustendil district, characterized by comparatively low economic indicators – both in terms of achieved level and dynamics of development. In this sense, the Kyustendil district fully covers the understanding of a traditionally underdeveloped border district with the typical features for the development of border regions in the Balkan countries.

The population of Kyustendil district represents only 1.76% of the population of Bulgaria. The population density is significantly lower than the average for the country and the district is 20th out of the 28 regions of Bulgaria according to this indicator. What is more important for the population of Kyustendil district is the quite clearly expressed tendency of its decrease, namely, in the last 10 years only its share in the total population of Bulgaria has decreased from 1.98% to 1.76%. The natural negative growth of more than 12‰ annually and ranks the district in the group of the 5 most disadvantaged areas under this indicator.

Concerning the dynamics of the overall changes in the demographic indicators, the forecast of the change of the population of Kyustendil district is for a decline of about 40 percentage points even in its most favourable scenario.

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The unfavourable development determines also the low level of GDP per capita, which ranks the Kyustendil district on 20th position among the 28 districts in the country. The low share is also a result of the change in the relative participation of the region in the formation of GDP of the country as a whole, which in 2015 is 78.1% from the one in 2007, with 92.8% average unweighted for all 28 districts.

Labour productivity is also lower than the average unweighted for the country, in the Blagoevgrad district it is lower. Mechanical growth is an indicator that varies a lot in individual years, but for Kyustendil district it is higher than the average unweighted for Bulgaria, in 2015 and in the previous years.

The observed low economic indicators for the Kyustendil district find an explanation also in the unfavourable demographic indicators. All this leads to the “vicious circle” of low GDP and foreign direct investment as an absolute volume in the regions with low population density, respectively low socio-economic indicators, and as a consequence of this a negative mechanical growth and the aging of the population in these districts. This, of course, also contributes to the lower pay in these districts, which further stimulates young people to look for opportunities in other regions – Kyustendil and Blagoevgrad districts by the labour cost index are among the 5 districts with the lowest pay.

4. Prospects for development of CBC within the observed regions in Macedonia and Bulgaria

Regional cross-border relations that can be expected to be established among the two countries are the following:

- Border region to border region, which is typical for cross-border relations within SMEs from the two sides of the border – Bulgarian and Macedonian cross-border relations can be expected to follow this form;
- Supra regional (big agglomeration to region) – in Bulgaria that would be from Sofia to the border regions of Macedonia and from Skopje to border regions of Bulgaria. As an example, Bulgarian firms will be working from Sofia to Kumanovo in Macedonia, respectively from Skopje to Kyustendil region. This form of relations creates favourable possibilities for cooperation between SMEs and also between SMEs and large firms in the regions of two countries.
- A similar form of cross-border relations is when large firms establish headquarters first in metropolitan regions and parallel in border regions. Thus, large firms find it easier to cooperate in border-to-border regions;
- Quite effective form of CBC is the twinning of towns. The twinning of towns is a successful example of CBC, as it leads to tangible economic results quickly. Cooperation on a local level is more effective and it is easier to start developing cross-border relations if such a relationship already exists;

- The creation of free trade and industrial zones also could be very beneficial for fostering CBC.

Developing of intra-regional economic relations will allow searching for trade possibilities to their not highly competitive industrial production on the open European Market.

The divergence of the export composition of the two countries is indicative to what extent the trade relation can be developed under realizing of inter-industry trade within the observed countries, in other words to what extent export is complementary and the other alternative in case of coincide of the composition of the export to estimate the possibilities for intra-industry trade.⁶

One specific possibility of development of cross-border relations is by creating regional innovation systems (RIS). The economists argue that cross-border areas in case of existence of given circumstances has the possibilities to develop an integrated innovation space. The development of different stages of RIS differ from the geographical areas – researches indicates that knowledge spillovers, which are ascribed to play a crucial role in the innovation process (Lundquist and Trippl, 2009).

It is also outlined that due to the combined effects of ongoing globalisation tendencies and the acceleration of technological change continuous learning and innovation have become a core strategy for sustaining competitiveness, growth and prosperity. Essential contributions in this respect can be obtained by the RIS approach, which highlights the crucial importance of spatial proximity and favourable institutional structures at the regional level for innovation activities.

Cross-border RIS should be seen as the most advanced form of transnational integration, more specifically, by bringing together the innovation capacity and achieving innovation-driven integration. Strongly integrated trans-border RIS are characterized by a considerable flow of knowledge, expertise and skills across the border, innovation-related networking among firms, academic collaborations.

Another important possibility and change in regional development, that shapes also CBC, is the recent economic crises, and global challenges to society, economy and environment. It has risen the question how to find new sources for growth which are related to the contemporary trend of searching synergy among economic, environmental and social spheres. The green economy can be thought of as an alternative vision for growth and development; one that can generate growth and improve people's lives in ways consistent with sustainable development.

Sustainable regional development aims to act as a catalyst in raising awareness amongst regional development professionals. It illustrates that there is no longer scope to concentrate only on economic growth, and this broader perspective encompasses activities ranging from establishing new forms of partnership to exploring innovative planning and integration methodologies.

⁶ Intra-industry trade refers to exchanges within same industries. In contrast to inter-industry trade, which requires specialization in different branches of production.

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Cooperation between regions is especially necessary in the context of the 2030 framework on climate and energy and the Energy Union. According to a recent study by Gephart et al. (2015) a “quantum leap” in regional cooperation is required to address the further deployment of renewable energy from 2020 to 2030. Green economy projects, especially the development of decentralized energy sources, eco transportation and measures for improving energy and resource efficiency could foster the competitiveness and innovations in the CB region and bring economic, as well as environmental and social benefits.

Economists has come to one general conclusion that the only one possible and feasible option for Balkan countries to attempt to reduce or offset the disadvantages of their peripheral location or isolation, should be implemented by developing regional cooperation among those countries. So, the development of relations within the Bulgaria and Macedonia is of vital importance for the two countries that are located peripherally to the European economic gravity centre.

Providing CBC is a good indicator for regions’ and countries’ adaptability to cooperate and respond to new integration and globalization processes. It should be understood that this is a win-win situation. In other words, regional interests coincide with national interests. Any other policy that tries to put the "national interest" ahead of the regional one will result in not defending the national interests.

The successful implementation and effectiveness of regional integration and CBC will depend significantly on making Bulgarian and Macedonian authorities aware of the importance of those activities.

The accumulated influence of negative factors for the border regions of Bulgaria, and Macedonia is of such a character that every initiative to improve economic conditions in these regions even if it does not have an obvious effect for the time being, in the long run can be expected to have a resoundingly positive impact for regional economic development. The cross-border relations need a purposeful regional policy that should be provided with the understanding that at this stage total effectiveness cannot be expected, but recognizing that supporting economic development is the only thing that will keep regional disparities from increasing.

The cross-border cooperation offers to the small and medium enterprises undoubted advantages that very often are the only way for the small firms to access foreign markets. That is why activities in supporting the development of the small and medium enterprises in the border regions are essential.

The latter shows the importance of the EU programs in this direction and second and even more important is the need the authorities of border countries (BC) to realize that the CBC is not only a matter of EU but is a national responsibility. So, it can be said that there is a large enough potential for CB economic initiatives and development of trade relations that so far were not used to its full capacity.

Overall, it seems that the best strategic reaction for the region as a whole to the pressures generated by economic integration is based on regional cooperation and regional integration. It can be underlined that the main benefit of the BC cooperation is expected to be realised mainly from CB relations and it can be accepted as an “optimal” regional policy for these countries, however the effectiveness of these relations needs efforts by local and state authorities to create favourable environment for that.

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