

DIFFERENTIATION IN ECONOMIC DEVELOPMENT OF CENTRAL AND EASTERN EUROPEAN COUNTRIES AND REGIONS

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Abstract. The object of this article are processes of economic development in Central and Eastern Europe (CEE). The purpose of the article was to identify the changes in the dynamics and in the level of economic development of countries and regions of CEE. This was examined on the basis of analyzes of GDP indicators (real GDP growth rate, GDP per capita). The results show that CEE countries are still at a relatively low level of development in comparison to the EU-15, but their relatively strong economic growth and modernization of the economic structure gradually eliminate the difference. This proves that in case of the CEE countries take place the external convergence processes. However, drivers of economic growth and development in CEE countries are primarily capital regions with a high concentration of businesses and financial institutions, as well as highly industrialized regions which level of economic development in recent years has improved significantly compared to the EU average. Simultaneously, the dynamics of development of other regions in the CEE countries was not such impressive what caused deepening interregional differentiations in each country of CEE. It shows that within CEE countries divergence processes take place. The results of the study can be utilised by cohesion policy. In conditions of external convergence and internal divergence of CEE countries, cohesion policy should support processes of regional development in CEE by financing investment projects in the most underdeveloped regions in order to enable them to use their endogenous resources. Cohesion policy should also support regions in which living conditions have been deteriorating. Extremely important is building the foundations of a harmonious regional development in each country of CEE which means supporting their most delayed regions.

Keywords: economic development, Central and Eastern European countries and regions.

Jel classification: O10, R11.

1. Introduction

The occurrence of developmental differences in the economic space is a natural feature, accepted in the market economy. Deepening differentiation of development of the various areas, however, is one of the main challenges of the modern economy and one of the major threats to the future of humanity. Too large differences in income and living conditions, which exist between growth areas and areas of economic stagnation, are not conducive to the process of socio-economic development of the

Member States of the EU, and even become one of its main barriers. This is confirmed by reports that analyze changes in levels of development of the Member States (Commission of the European Communities 2008; Barca 2008; European Commission 2010a, 2010b, 2010c). These documents emphasize the need to ensure better conditions for convergence in the EU aimed at improving its economic, social and territorial cohesion. However, the socio-economic development of the EU leads to maintain or even deepen the development disparities between areas of growth and stagnation. The need to identify regularities in polarization processes of development which could allow take actions to reduce the scale of the spatial diversity, especially by controlling the process of regional policy, has become the basis of an important trend of modern economic research (Barro, Sala-i-Martin 2004; Begg *et al.* 2008; Corrado *et al.* 2009; Copus 2001; Faludi 2006; Henley 2005; Kamps *et al.* 2009; Molle 2007; Parr 2004). When looking for new, more effective forms and directions of regional policy of the EU it is underlined the lack of proper efficiency and effectiveness of existing measures of this policy which restrict themselves to a levelling paradigm. However, occurrence of convergence does not necessarily mean eliminate differences. The key issue is to achieve the level of diversification in development which is politically and socially acceptable (Faludi 2006; Molle 2007). Existence of areas of economic growth and stagnation does not necessarily mean a barrier to the development process. The barrier is too large scale of differences between the level of development of these areas as well as the lack of relationship between them, which are necessary for the functioning of such a system in line with the theory of polarization. This approach is a paradigm of polarization and diffusion of regional policy and is supported by the OECD and the World Bank (OECD 2008; World Bank 2008; OECD 2010). According to this paradigm EU cohesion policy should be aimed at allowing the use of endogenous resources of regions, territorial coordination of regional policies and the introduction of multi-level governance (ES-PON 2006; European Parliament 2008).

CEE countries (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia) in the period of transition from command economy to a market system had to adapt to the challenges of globalization and to find the right place in the system of world economy. It was necessary to privatize and deregulate of public sector and to eliminate restrictions within the international flows of goods, services and factors of production. With the opening up to the world and integration with the EU, CEE countries improved their competitiveness and economic efficiency but also deepened the social and economic inequalities in their area. Therefore, in order to introduce a new EU paradigm of regional policy in relation to CEE it is necessary to identify changes of its interregional differences in the dynamics and in the level of economic development.

The purpose of the article is to identify the changes in the dynamics and in the level of economic development of countries and regions of CEE. This will be examined on the basis of analyzes of GDP indicators (real GDP growth rate, GDP per capita).

2. Differentiation in the level and in dynamics of economic development of CEE countries

CEE countries in times of transition were characterized by a diverse dynamics of economic growth. Each of them experienced a deep crisis in the first half of 1990th, when annual GDP declines were even several tens of percent. In the second half of 1990th some CEE countries entered the path of sustained economic growth (Latvia, Hungary, Poland, Slovenia and Slovakia). Others went out from the economic downturn at the end of this period (Bulgaria, Czech Republic) or at the beginning of 21st century (Romania). In some countries (Estonia, Lithuania) development processes were disrupted in 1999, when real GDP growth was negative. In the first decade of 21st century in CEE it has been observed a systematic, annual real GDP growth. In 2005-2008 real GDP growth rates in most CEE countries were higher than real GDP growth rates in the EU-15 and EU-27. Exceptions to this rule were: Hungary, where real GDP growth rate in 2007 was lower than in the EU-15 and EU-27 and Estonia and Latvia, which in 2008 were characterized by a negative growth rate of real GDP. In 2008, in the CEE countries, with the exception of Romania, the global economic crisis was reflected in the lower GDP growth rates than in the previous years. In 2009 most of the European countries, including all EU countries except for Poland, experienced a fall in real GDP compared to 2008, and for some of them (Lithuania, Latvia and Estonia) it was a significant decrease, a dozen or so. In 2010 the economy of Latvia and Romania shrank. In 2011 real GDP growth rate in CEE was higher than in the EU-15, and the only country which experienced a fall in real GDP was Slovenia. Forecasts for 2012 indicate that in this year compared to 2011 CEE will record real GDP growth, and the only countries in the region with a negative growth rates of real GDP will be Hungary and Slovenia.

Analysis of real GDP growth rates of EU countries indicates that CEE countries since 2005 have been developing more rapidly than the EU-15 countries and this trend interrupted by the global economic crisis at the end of the first decade of 21st century is likely to continue in the coming years. However, in terms of the level of economic development which is measured by GDP per capita, CEE countries differ in minus from the EU-15 countries¹. In CEE countries for over ten years of

¹ GDP per capita is not a perfect measure of the level of economic development. This is due to the fact that economic development is a multi-faceted process, associated not only with changes in quantitative, but also qualitative and structural transformations of the economy. However, there are three arguments which justify the adoption of GDP per capita as a measure of the level of economic development of the CEE countries and regions. Firstly, economic development is not only a multi-faceted process, but also a long-term process. To observe changes in this process it is necessary to dispose a long series of statistical data. GDP per capita, in contrast to other indicators of economic development, fulfills this condition. Secondly, qualitative and structural transformations of the economy are always determined by the increase in the quantity of goods and services which are produced in the economy (GDP growth is always a material base for the development). Thirdly, CEE countries because of their relatively low level of socio-economic development, implement the catch-up strategy.

socio-economic transformation motivated by a desire to join the EU GDP per capita has increased significantly and this process has been continued after their accession to the EU, however, compared to the average GDP per capita in the EU it is still much lower. In the years 1995-2009 the highest rates of GDP per capita among the CEE countries (more than 70% but no more than 87% of the EU-27 average) had Czech Republic and Slovenia. In 2009 Slovakia joined them. The lowest rates of GDP per capita had Bulgaria and Romania. In 2009, these indicators were not even half of the average GDP per capita in the EU-27 (Table 1).

Table 1. GDP of CEE countries compared to EU-15 in 1995-2012 (Source: <http://epp.eurostat.ec.europa.eu>, 10.09.2012)

Country	Real GDP growth rate, % change on previous year								GDP (pps) per capita in %, UE 27=100			
	2005	2006	2007	2008	2009	2010	2011	2012*	1995	2000	2005	2009
UE 15	1.8	3.1	3.0	0.0	-4.4	2.0	1.4	0.5	116	115	113	110
BG	6.4	6.5	6.4	6.2	-5.5	0.4	1.7	1.4	32	28	37	44
CZ	6.8	7.0	5.7	3.1	-4.7	2.7	1.7	0.0	77	71	79	82
EE	8.9	10.1	7.5	-3.7	-14.3	2.3	7.6	1.2	36	45	62	64
LV	10.1	11.2	9.6	-3.3	-17.7	-0.3	5.5	2.1	31	36	48	51
LT	7.8	7.8	9.8	2.9	-14.8	1.4	5.9	2.3	35	40	53	55
HU	4.0	3.9	0.1	0.9	-6.8	1.3	1.7	-0.1	51	54	63	65
PL	3.6	6.2	6.8	5.1	1.6	3.9	4.3	2.5	43	48	51	61
RO	4.2	7.9	6.3	7.3	-6.6	-1.6	2.5	1.6	33	26	35	47
SI	4.0	5.8	6.9	3.6	-8.0	1.4	-0.2	-0.1	74	80	87	87
SK	6.7	8.3	10.5	5.8	-4.9	4.2	3.3	1.2	47	50	60	73

Note: * - forecast.

3. Differentiation in the level and in dynamics of economic development of CEE Nuts 2 and NUTS 3 regions

The level of economic development of CEE regions, like CEE countries, is much lower than the average level of economic development in the EU. In 1995, among the twenty NUTS 2 regions with the highest GDP per capita in the EU, there was no CEE region. In 2000, in this group was Praha (CZ), taking the last, 20th place with a GDP per capita amounting to 139% of the average GDP per capita in the EU-27. In 2005 Praha took 8th position (166%) and to the twenty highest developed regions in EU joined Bratislavský kraj (SK), which took 18th place with a GDP per capita equal to 147% of the average GDP per capita in the EU-27. In 2009, in the top twenty there were only two CEE NUTS 2 regions: Bratislavský kraj (178%; 5th place) and Praha (175%; 7th place).

Simultaneously, since 1995, among the twenty NUTS 2 regions with the lowest GDP per capita in the EU there have been only CEE regions. In 2009, among them there were 6 regions of Romania, 4 regions of Hungary, 5 regions of Poland

According to EU's cohesion policy the material base of this strategy should be dynamic GDP growth (Kosiedowski, 2008, p. 38-42).

and 5 regions of Bulgaria. GDP per capita of the last region in this group of regions equalled only 27% of the average GDP per capita in the EU-27. Moreover, only in case of half of the regions real GDP per capita in 2009 was higher than in 1999 (Table 2).

Table 2. Real GDP per capita growth rate in the least developed NUTS 2 CEE regions in 2009 in comparison to 1999 (Source: own calculations based on <http://epp.eurostat.ec.europa.eu>, 10.09.2012)

No.	Region	Real GDP per capita growth rate in 2009 in comparison to 1999
1	Swietokrzyskie (PL)	39
2	Centru (RO)	-18
3	Dél-Dunántúl (HU)	·
4	Podlaskie (PL)	41
5	Warminsko-Mazurskie (PL)	32
6	Dél-Alföld (HU)	·
7	Nord-Vest (RO)	-17
8	Észak-Alföld (HU)	·
9	Podkarpackie (PL)	32
10	Lubelskie (PL)	34
11	Észak-Magyarország (HU)	·
12	Sud – Muntenia (RO)	-9
13	Sud-Est (RO)	-27
14	Severoiztochen (BG)	38
15	Yugoiztochen (BG)	24
16	Sud-Vest Oltenia (RO)	-25
17	Yuzhen tsentralen (BG)	52
18	Severen tsentralen (BG)	35
19	Nord-Est (RO)	-28
20	Severozapaden (BG)	26

Notes: calculated on the basis of constant prices of 1999. “·” – lack of data.

In CEE, the drivers of growth and economic development are the capital regions and highly industrialized regions. Their level of development measured by GDP per capita, both in relation to the EU average, as well as in absolute terms significantly improved from 1995 to 2009. At the same time, in CEE there were growing interregional disparities in economic development - not only between the

most and least developed regions, but also between regions with the highest level of development. This applies to both NUTS 2 and NUTS 3 regions. The strongest regions are becoming even stronger.

In 1995, among the CEE NUTS 2 regions the highest GDP per capita had Praha (CZ). It amounted to 18 900 pps and was equal to 129% of the average GDP per capita in EU-27. The last place in the ranking by the GDP per capita in 1995 took Nord-Est (RO). Its GDP per capita equalled only 3 900 pps and 27% of the average GDP per capita of the EU-27. In 2009, in CEE the most developed NUTS 2 region was Bratislavský kraj (SK) with GDP per capita amounted to 41 800 pps and 178% of the EU-27 average. The least developed region was Severozapaden (BG) with GDP per capita accounted for 6 400 pps and 27% of the EU-27 average. The difference in levels of development between the least and most developed NUTS 2 region grew from 15 000 pps in 1995 to 35 400 pps in 2009.

The disparities in the level of development of the most developed CEE NUTS 2 regions deepened in the period 1995-2009. In 1995 on the 15th position in terms of the level of economic development as measured by GDP per capita was Dolnoslaskie (PL) with a score of 6 600 pps (45% of the EU-27 average). In 2009 on the 15th position was Severovýchod (CZ) with a score of 15 700 pps (67% of the EU-27 average). The difference in the level of GDP per capita between 1st and 15th region doubled from 1995 to 2009 – in 1995 it amounted to 12 300 pps and in 2009 it amounted to 26 100 pps.

Most of the CEE NUTS 2 regions, which in 2009 were classified as the most developed, in the years 1995-2009 experienced a significant, tens of percent growth in real GDP per capita. Some regions had an increase of over 100% (Bratislavský kraj, Praha) or close to 100% (Yugozapaden (BG), Západné Slovensko (SK)). However, among the leaders in terms of the GDP per capita there were regions in which from 1999 to 2009 real GDP grew in very small extent (Zahodna Slovenija (SI), Bucuresti-Ilfov (RO)) or even decreased (Vzhodna Slovenija (SI); Table 3).

Ranking of CEE NUTS 3 regions with the highest GDP per capita in 2009 was dominated by capitals. The leader was Miasto Warszawa (PL) with a GDP per capita equalled 42 600 pps (182% of the EU-27 average). On the 15. place in the ranking was Katowicki region (PL) with GDP per capita amounted for 21 000 pps (89% of the EU-27 average). The difference between GDP per capita of the 1. and 15. region in ranking was 26 100 pps, and was, as in the case of NUTS 2 regions, more than two times greater than the difference between GDP per capita of 1. (Miasto Warszawa, 25 400 pps, 142% of the EU-27 average) and 15. (Stredoceský kraj (CZ), 12 100 pps, 68% of the EU-27 average) region in ranking for 1999 (Table 4).

Table 3. 15 the most developed CEE NUTS 2 regions according to GDP (pps) per capita in 1995 and 2009 (Source: own calculations based on <http://epp.eurostat.ec.europa.eu>, 10.09.2012)

No.	1995			2009			
	Region	GDP (pps) per capita	GDP (pps) per capita in %, EU 27=100	Region	GDP (pps) per capita	GDP (pps) per capita in %, EU 27=100	Real GDP growth rate in 2009 in comparison to 1999 in %
1	Praha (CZ)	18 900	129	Bratislavský kraj (SK)	41 800	178	125
2	Bratislavský kraj (SK)	14 900	102	Praha (CZ)	41 200	175	105
3	Zahodna Slovenija (SI)	13 000	89	Bucuresti – Ilfov (RO)	26 100	111	8
4	Severozápad (CZ)	10 800	74	Közép-Magyarország (HU)	25 500	109	•
5	Jihozápad (CZ)	10 700	73	Zahodna Slovenija (SI)	24 600	105	2
6	Severovýchod (CZ)	10 300	70	Mazowieckie (PL)	22 800	97	45
7	Jihovýchod (CZ)	10 300	70	Yugozapaden (BG)	17 700	75	97
8	Střední Čechy (CZ)	9 900	68	Jihovýchod (CZ)	17 500	75	86
9	Moravskoslezsko (CZ)	9 900	67	Střední Čechy (CZ)	17 300	74	74
10	Střední Morava (CZ)	9 600	65	Vzhodna Slovenija (SI)	16 900	72	-1
11	Vzhodna Slovenija (SI)	9 200	63	Jihozápad (CZ)	16 700	71	70
12	Mazowieckie (PL)	8 000	55	Západné Slovensko (SK)	16 100	68	93
13	Slaskie (PL)	7 500	51	Moravskoslezsko (CZ)	15 900	68	87
14	Bucuresti – Ilfov (RO)	6 900	47	Severozápad (CZ)	15 700	67	74
15	Dolnoslaskie (PL)	6 600	45	Severovýchod (CZ)	15 700	67	66

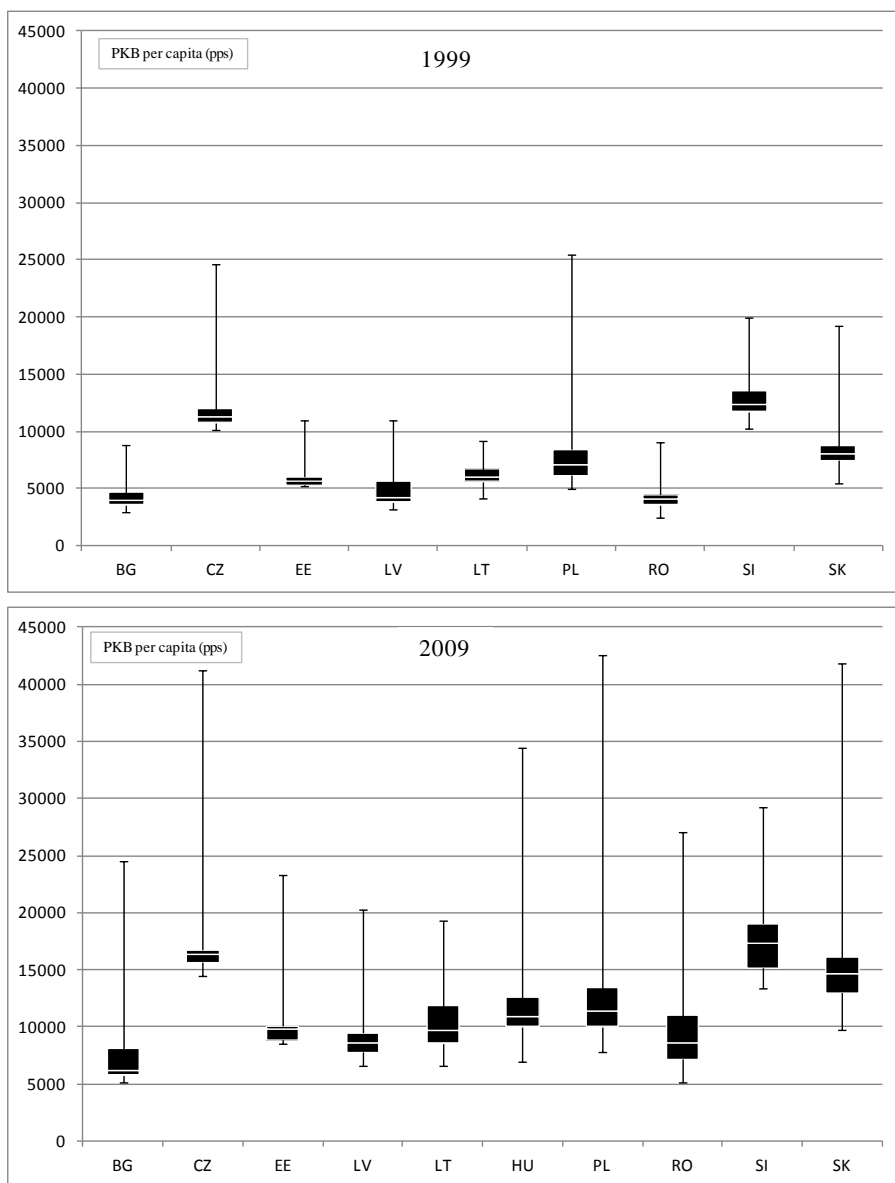
Notes: The ranking for 1995 does not include regions of Hungary. Real GDP growth rate was calculated on the basis of constant prices of 1999. “•” – lack of data.

Table 4. 15 the most developed CEE NUTS 3 regions according to GDP (pps) per capita in 1999 and 2009 (Source: own calculations based on <http://epp.eurostat.ec.europa.eu>, 10.09.2012)

No.	1999			2009			
	Region	GDP (pps) per capita	GDP (pps) per capita in %, EU 27=100	Region	GDP (pps) per capita	GDP (pps) per capita in %, EU 27=100	Real GDP growth rate in 2009 in comparison to 1999
1	Miasto Warszawa (PL)	25 400	142	Miasto Warszawa (PL)	42 600	182	42
2	Hlavní mesto Praha (CZ)	24 600	138	Bratislavský kraj (SK)	41 800	178	125
3	Osrednjeslovenska (SI)	20 000	112	Hlavní mesto Praha (CZ)	41 200	175	105
4	Bratislavský kraj (SK)	19 200	108	Budapest (HU)	34 500	147	•
5	Miasto Poznan (PL)	16 400	92	Osrednjeslovenska (SI)	29 200	124	5
6	Obalno-kraska (SI)	15 300	86	Miasto Poznan (PL)	28 400	121	46
7	Goriska (SI)	14 500	81	Ilfov (RO)	27 100	115	65
8	Miasto Szczecin (PL)	13 500	75	Sofia (stolitsa) (BG)	24 500	105	111
9	Miasto Wrocław (PL)	13 400	75	Põhja-Eesti (EE)	23 300	99	88
10	Savinjska (SI)	13 200	74	Legnicko-Głogowski (PL)	22 700	97	83
11	Jugovzhodna Slovenija (SI)	13 200	74	Obalno-kraska (SI)	22 300	95	4
12	Miasto Kraków (PL)	13 100	74	Miasto Wrocław (PL)	21 800	93	38
13	Trojmiejski (PL)	12 800	72	Miasto Kraków (PL)	21 700	92	39
14	Gorenjska (SI)	12 700	71	Tyski (PL)	21 700	92	53
15	Stredoceský kraj (CZ)	12 100	68	Katowicki (PL)	21 000	89	48

Notes: The ranking for 1995 does not include regions of Hungary. Real GDP growth rate was calculated on the basis of constant prices of 1999. “•” – lack of data.

The dynamic development of metropolitan and industrialized regions of CEE and slower which was observed in case of the others, was reflected in the deepening interregional differentiations in the levels of economic development in each CEE country. In case of each CEE country, the ratio of GDP per capita of the most and least developed NUTS 3 region in 2009 was greater than in 1999. Deepening differences in the level of interregional economic development was most evident in case of Bulgaria, Lithuania, Romania, Slovakia and Slovenia (Figure 1).



Notes: lower base of rectangle is determined by the first quartile, the upper base of rectangle is determined by the third quartile, the height of the rectangle corresponds to the chasm quadrant, horizontal white line inside the rectangle determines the median value, the lower end of the segment corresponds to the smallest value in the data set, the end of the upper part corresponds to the largest value in the data set.

Fig. 1. Interregional (NUTS 3) differentiations in the levels of economic development in CEE countries in 1999 and 2009 (Source: own calculations based on <http://epp.eurostat.ec.europa.eu>, 10.09.2012)

4. Recommendations for EU regional policy

Analysis of the economic growth rates of the CEE countries indicates that these countries, although still lower level of economic development, have slowly reduced the distance that separated them from the other countries of the EU. This provides the premise to claim that in case of the CEE countries the external convergence processes have taken place. Simultaneously, in the CEE countries internal divergence processes have taken place, as evidenced by the growing discrepancies in the level of economic development of regions in each country. This raises the question about the sense of actions carried out within cohesion policy because the primary objective of the policy, such as increasing economic and social cohesion within the EU does not seem to be implemented in the CEE countries.

The impact of cohesion policy on convergence processes in the EU has been the subject of many studies. The European Commission, on the basis of the results of econometric research, shows that this effect exists and is related to the positive impact of structural funds on economic growth and reduce unemployment (European Commission 1996, 2001, 2004, 2007, 2010a). However, there are other studies that question or diminish the positive impact of cohesion policy and its financial instruments on convergence processes in EU, but do not prove that regional policy could result in further widening of the gap in socio-economic development between regions of member states of EU (Boldrin, Canova 2001).

In case of CEE countries a key issue that should be taken into account when assessing the effectiveness of cohesion policy is the level and pace of economic development. According to Williamson, in case of countries lagging behind in economic development, income growth will cause initially an increase of interregional inequalities. These inequalities will be reduced when the income level increases significantly. Confirmation of this view in case of the CEE countries, however, would require long rows of statistical data and conduct in-depth research.

Nevertheless, based on presented analyzes one can formulate several conclusions for the EU regional policy which is implemented with regard to the CEE countries. First of all it should be noted that financial support to CEE is definitely needed because of developmental delays that part of Europe. National public and private funding would not be sufficient to realize a number of strategic investments in the region. It should, however, be considered whether to support growth centers, such as regions, which in terms of GDP per capita are well above average GDP per capita in the EU-27, or rather focus on the recapitalization of weaker regions, with level of development lower than average. Such an approach could trigger growth impulses in the weakest regions. Highly developed regions would be able to compete for resources even without additional financing from EU funds.

It also appears that currently too little attention is paid to the fact that the measurable effect of cohesion policy should be to improve the quality of life of EU citizens. Generally in the CEE countries living conditions have been improving but at a very uneven pace. In 2009 in CEE there were regions where the standard of

living measured by GDP per capita was not only the lowest in the EU, but also worse than in 1999. This concerned mainly Romanian regions (NUTS 2 and NUTS 3). In 2009 among the NUTS 2 regions in Romania only Bucuresti-Ilfov had a higher real GDP per capita than in 1999. Among the Romanian NUTS 3 regions it was only Arges and Ilfov. Deterioration of the standard of living in underdeveloped regions appeared also in some Bulgarian NUTS 3 regions: Dobrich, Sliven, Yambol and Kyustendil. Similar situation occurred in significantly higher developed regions than Romanian and Bulgarian. In 2009 some Slovenian regions such as Vzhodna Slovenija (NUTS 2), Podmurska, Koroškem, Savinjska, Zasavska, Notranjsko-kraska, Gorenjska and Goriska (NUST 3) were characterized by a lower level of real GDP per capita than in 1999. The regions where the standard of living has been getting worse, should be a priority objective of EU regional policy because when the quality of life improves, diversity in levels of development is more accepted.

In CEE there have been not only increasing development gap between regions with the highest and lowest levels of economic development. One can also observed deepening interregional development disparities in each country. Balanced regional development in the CEE countries should be an item of interest of national authorities and national economic policies, but supportive role in this regard should have EU's regional policy. By supporting the most vulnerable regions in each country and trying to solve their complex problems, EU funds could contribute not only to mitigate inter-regional disparities in the CEE countries, but also to build the foundations of a harmonious regional development in the individual countries of the EU.

5. Conclusions

Analysis of the economic growth rates of the CEE countries indicates that these countries, although having still lower level of economic development, have been slowly reducing the distance that separated them from the other countries of the EU. This provides the premise to claim that in case of the CEE countries the external convergence processes have taken place. Simultaneously, in the CEE countries internal divergence processes have taken place, as evidenced by the growing discrepancies in the level of economic development of regions in each country. At the present level of development of the CEE and taking account a new paradigm of development policy, cohesion policy should support processes of regional development in CEE by:

1. Financing investment projects in underdeveloped regions, with lower level of economic development than average in EU, in order to enable them to use their endogenous resources, and abandoning support for growth centers,

2. Supporting regions in which living conditions have been getting worse, which means that at present standard of living in these regions measured by GDP per capita is lower than several years ago,
3. Supporting the most delayed regions in each country and thus contribute to building the foundations of a harmonious regional development in each CEE country.

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