

## **LOCATION AS THE REASON FOR THE PROBLEMS OF OLD INDUSTRIALISED SETTLEMENTS**

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Industry has in Estonia three main types of location:

- bigger centres (Tallinn, Tartu, centres of counties);
- the most eastern part of Estonia: Ida-Virumaa;
- the so-called “mono-functional” (one-enterprise) settlements.

Because the problems in last two are much more serious as in the first one, it is actual to ask, whether the disadvantageous location of industrial plant is the reason for problems or not. The mono-functional settlements are one of the most interesting industrial location spaces in Estonia. They are small towns and villages (300 - 10000 inhabitants), in which was at the Soviet time only one industrial enterprise what was the employer of the most employed inhabitants of the settlement. The official criteria for this status fixed by the Estonian government are:

- At least 50% of employees are employed in one enterprise (called also mono-enterprise) or in one branch of industry;
- The above-mentioned enterprise is industrial;
- The settlement has at least 300 inhabitants (Monofunktsionaalsete..., 1997).

The settlements adequate to these criteria are in Estonia 34. They locate in all districts of Estonia; anyway they have for the most part concentrated into the Central Estonia around the Tartu-Tapa railway and into the most eastern region of Estonia: Ida-Virumaa, being at the same time as well a part of problems of this most industrial area of Estonia.

Here we should point out that not all of these settlements are the typical living places of workers of the local industrial enterprise. In some settlement exists besides the industry the hidden economy, usually the self-sustained natural one-household farming. The very typical “proletarian” settlements are ca 10 from among the above-mentioned 34.

At the soviet period was in these 34 settlements in 8 the dominating activity the food industry, in 5 the peat industry, in 5 the wood industry, in 4 the production of building materials, in 2 metallurgical, mining or textile industry and in 1 cellulose and paper industry, shipbuilding or mechanical engineering. At moment is the situation somewhat different because many enterprises are shut down, hence we cannot fix the dominating branch of economy nowadays but because the problems of settlements proceed from the former time we must consider primarily the former structure of economy.

The estimated unemployment in these settlements was 2.2-33.6% (MFA profiiliuuring, 1997) with arithmetical average 13.4%, which was a bit more as Estonian average at that time but the problem has been actually bigger because of specially high unemployment in some such settlements and the danger for other to fall into similar situation. Some of Estonian mono-functional settlements have in the transition period gone through a significant crisis gone with the bankruptcy of the dominated enterprises.

Some of these enterprises are created in the 19th century but the most part of them is created at the Soviet period, especially in 1950-1960 years. The settlements are in many cases created or significantly grown as the enterprise-workers living places. The main reason to choice of location of enterprise was the nearness of some raw material or energy resource. At the soviet period was the deciding factor sometimes also the subjective decision of bureaucrats.

The reasons for difficulties of old industrial areas are everywhere connected with the changes in economy (see for example Massey, 1988), so also in Estonia. The problems of mono-functional settlements appeared in connection with radical economical and social changes in the transition period. In Estonia, as well as in all Central and Eastern European Countries, we may speak about three transition processes at the same time.

- Post-socialist transition - the transition to the market economy has changed former relations.
- The transition from the Eastern countries (Russia) to the Western countries - former markets have been lost or they don't exist any more. New markets assume new kind of relations and the actors haven't yet adapted themselves to them.
- Post-industrial transition - means essential changes in economical life, as in transition countries as well in developed industrial countries. Though the problems of old industrial areas in post-socialist countries are foremost caused by two first transition processes, we cannot in the search of solutions ignore the changes in market-economy countries due to the arise of information society and globalization. This is argued by the fact that industrial areas in developed market-economy countries have the similar problems as in post-socialist countries. Old industrial districts are not attractive enough for new economical activities. In Estonia are the three transition processes mixed with one another and it is always not possible to separate them.

In comparing with the Western countries are the problems of old industrial districts in the transition countries represented in more contrast way. In western countries was the creation of industrial plants into the peripheral districts a result of the regional policy proceeded from the growth poles theory (Oscarson, 1989), which to some extent have nevertheless took into account the market factors. However, also in the communist countries was the main reason to choice of location some rational criteria (usually the nearness of some raw material or energy resource), but sometimes was the single deciding factor even the subjective decision of bureaucrats.

So in communist countries were many enterprises located in the settlements without the functions of social and economical centre (Luse, 1998) and without the traditions of this kind of activity (Uhril, 1998). The management was more concentrated as in fordist-type capitalist economy. The production and related activity was concentrated into the big concerns with very fixed and inflexible stark hierarchy. Also production relations outside the company were fixed by the agencies of government.

In order to generate indigenous self-sustained development, economies should be capable of providing adequate links and networks around the main production to achieve higher value added activities and to secure their positions in the markets. Because of agglomeration effect need the networks to be localized (Indergaard, 1996; Morris, 1991). "Ideal" type of production system is both stable (coordinated and secure for all participants) and competitive (committed to efficiency and quality improvement) (Hayter, 1997). Because of disadvantageous location and strongly hierarchical production systems haven't the most of Estonian mono-functional settlements such characteristics.

For the mono-functional settlements is usually characteristic the low level of entrepreneuring activity. The development of small entrepreneurship is often restricted by disadvantageous location of settlement, by too small local market and sometimes also by opposition of the dominating enterprise. The mono-enterprise often has control over the infrastructure of the settlement, it can restrict the access to the resources needed for activity of other enterprises. The restriction can be both direct and indirect (price discrimination and other unfair competition measures). The agents of the dominating enterprise often have the majority in the parliament of local municipality that makes for them possible to control the decision process about the development of entrepreneurship (MFA profilliuuring, 1997).

New enterprises have the lack of capital. In many problematic settlements has not formed the environment favoring the enterpreneurity, there doesn't arise the synergy developing enterpreneurity, as restrictive can influence also the bad image of settlement (Ernits et al, 1998).

Because of low entrepreneurship and dominance of mono-enterprise is characteristic also the lack of internal competition. The low level of knowledge intensity and the lack of internal competition cause the low level of innovativity (Ernits, 1998).

Many dominating enterprises in mono-functional settlements have serious difficulties. The reasons for problems are several: the non-stability or uncertainty of the production market, the problems with privatization or with restructuring (here: restructuring of leading), the lack of investments, the political uncertainty or disadvantages of Estonia, too strong or unfair competitors, the incapacity of the management to manage in new conditions (the wrong allocation of liquid assets, inadequate contracts etc.), the owners of the enterprise are living outside the district and don't consider the special situation in district, the raw materials are exhausting, many of the enterprises are doing in branches depending a lot on whether. Exclude the last three all reasons we can summarize as the reasons caused by transition economy. The disadvantageous location of the enterprise is the direct reason for difficulties quite seldom. Usually exist several above-mentioned problems as a complex.

The location is although the indirect reason for problems in several cases. Namely, at the time of establishment the enterprise were important the different location factors as nowadays. The criteria for choice the location were often the closeness to resource of raw material or energy or sometimes even the subjective decision of state officials. Anyway, there are not enough by the choice of the location taken into consideration the factor of human capital. Often have the analogous enterprises in bigger centers been notably more successful in comparing the enterprises in peripheral settlements without advantageous milieu and synergetic effects. In the successful mono-functional settlements is one factor securing the success the nearness of some bigger center (see also Ernits, 1998).

The main general reason for problems in Estonian mono-functional settlements is the inability to adapt themselves with the changing circumstances caused by the transformation. Important role are here playing the inflexible production systems based on strong hierarchies, which cannot to create adequate linkages, synergetic effects and the advantageous milieu. The location of industrial plant in some bigger center offers a more advantageous environment, possibilities for linkages and networking supported by research, public agencies, NGO-s, as well as the bigger local market and the possibilities of interactive connections. In such conditions are much easily arising synergetic effects and there is functioning the internal competition as stimulator for development.

We can summarize that the location is not the direct reason for problems of old industrial settlements, but it is the multiplier of problems what makes the solving more difficult.

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