THE FUTURE OF INDUSTRIALISED CITIES AND REGIONS UNDERGOING STRUCTURAL CHANGES

SLOVENIA

Country report
draft

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Historical overview

The beginnings of industrial development can be traced back to the eightieth century, when mining, iron, textile, glass and paper industries developed. First establishments were small and their location was determined by location of raw materials (coal and iron mines, woods). The construction of railroads in ninetieth century gave new impetus to industrialization process with the growth of international trade. Along the railroads, industrial centers developed (Maribor, Ljubljana, Trbovlje, Celje, etc.). It is, thus, the second half of the 19th century, when industrialization process in Slovenia really started.

Political changes during the twentieth century influenced the industrialization of Slovenia to a great extent. After the WWI and the partition of Austro-Hungarian empire Slovenia became part of newly established Yugoslavia. Foreign economic elite was slowly replaced by Slovenian one. As the most developed part of Yugoslavia, it could used the benefits of big, and highly protected, Yugoslav market to its advantage. The demand for industrial products was growing. As a result, Slovenian industrial production changes from raw materials and semi products to final products. During the 1930s, the growth of Slovenian industry accelerated. The number of industrial establishments grew from 275 in 1918 to 523 in 1939. Heavy industries (mining, iron, electricity production) together with textile and food industries were in the lead, but other followed.

After the WWII, industrial development gained new momentum. Accelerated industrialization was the main component of socialist economic development policy. The share of industry in the structure of GDP was permanently growing until the 1985 and the same apply to employment. The structure of Slovenian industry diversified further. It was primarily oriented toward satisfying growing domestic demand, producing final products based on imported technology and raw materials. Due to high protection of Yugoslav market, producers could sell most of their products on domestic market, despite lower productivity, lower quality, higher production costs and higher prices in comparison to foreign producers. Export was relatively small and unattractive due to lower prices they could gain on world market. Oil crises and growing external debt slowed down the economic growth. Reforms and measures introduced to deal with new situation were not successful and Slovenia missed the opportunity for timely restructuring of its economy. After the 1986, industrial production declined, what was accompanied by the decline of GDP. Even greater decline of industrial production followed the partition of Yugoslavia, during the years 1990-1992 (table 1).

[Insert MAP]

After political changes, economic changes followed. It was an expected result that these changes would be more painful than if carried out on time, since Slovenian industry now had to compete with already restructuring developed economies.

[Insert Table 1]

Transition from socialist to market economy and economic restructuring

Slovenia has endured the shocks of economic and political transition rather well (table 2). However, transition in Slovenia has been hampered by the disintegration of the former Yugoslavia and its consequences, when Slovenian economy had to overcome shocks of losing Yugoslav markets, loss of industrial property in Serbia, war in Croatia etc. On the other hand, Slovenia had the advantage of an earlier experience of a self-management system based on a quasi market economy and from the exposure to democratic and market economic influences through trade and free mobility of people since mid-1960s, especially with its neighboring countries, Italy and Austria, facilitating the transition. Stabilization of the economy, the initial phase of recovery, establishment of numerous new institutions and legal framework necessary for the market economy have been achieved to a considerable degree. The formal framework is in place; a major challenge is an effective co-ordination and co-operation.

[Insert Table 2]

In the economic field the emphasis was first on macroeconomic stability and on measures to arrest the fall in production and employment. The recovery has started during 1993 and continued until now. The figures (table 2) show a drastic fall of the GDP at the beginning, but afterwards it has grown considerably. In 1995, it was already higher than in 1990. At the end of nineties, budget deficits and growing debt require special attention. Inflation is still a problem (7,9 in 1998 and 6,1 in 1999). General government consumption as percent of GDP is around 46 percent.

[Insert Table 3]

Since the 1990, a remarkable structural change has been achieved in market orientation so that now around two thirds of foreign trade is with the EU. The loss of former Yugoslav market has been compensated to a great extent. Slovenia's most important trading partners are Germany, Italy, France, Austria and Croatia. Gross fixed capital formation as percent of GDP is steadily growing but it is still low compared to countries enjoying high rates of growth. In the structure of investments the share of manufacturing, trade and tourism is decreasing and the share of financial, technical and business services increasing.

One of the most important long-term problems is unemployment. During the 1990-1998 period, more than 120.000 jobs in industry were lost. The loss was not compensated by the growth of employment in other sectors. The number of registered employed grew from 15.000 in 1987 to 137.000 in 1993. At the moment, the unemployment rate (ILO standardized rate) is still over 7 percent. The registered unemployment rate is higher, about 14 percent (table 2). The rate of economic activity of the working age population, which used to be among the highest in Europe dropped from 72 percent in 1987 to 57.7 percent in 1994. The number of employed is around one forth lower than in 1986, although it has been slowly growing since 1998. Despite the wide range of measures taken in the area of active employment policy, structural unemployment problems are worsening. They are reflected in high shares of unemployed aged over 40, unskilled unemployed (finished only primary school or acquired low level of vocational qualifications) and long-term unemployed. All three phenomena are inter-related; the share of unemployed over 40 and unskilled unemployed increases with the duration of unemployment.

Despite steady economic recovery since 1993, the share of industry in the structure of GDP has been declining (table 3) due to structural changes in Slovenian economy. Those industries, which cannot compete on a European and world market, can hardly survive. It is expected, that mining is one of them. Most of mines closed (mercury, uranium, lead, coal) have been already or are in the process of closure. In addition, many manufacturing firms went bankrupt, while others have gone (are going) through the painful process of restructuring.

Today, the structure of Slovenian industry resembles the industrial structure of less developed countries within EU, Greece and Portugal. The share of technologically less sophisticated and slowly growing industries is too high. Between the fast growing, and the most competitive are manufacturing of machinery and equipment, electrical and optical equipment, chemical (especially pharmaceutical), rubber, and non-metallic mineral products. Many firms are highly export oriented with most of their revenues coming from export on foreign markets. Positive changes in the structure of the economy are best visible when analyzing particular branches of industry. Numerous new or improved products and services have appeared on the market. Abandoning of products is most intensive in companies in rehabilitation that produce metals, furniture, wood and rubber. This is largely a result of a keener competition (foreign trade) and the growth of the private sector. Many new small- and medium-size firms have been set up and numerous state-owned enterprises have been subdivided and privatized. Privatization of state owned firms in various sectors such as steel, energy, transport, telecommunications and banking has not been completed, yet.

Lost industrial jobs are being only slowly replaced by new jobs in service sector, which share in GDP is increasing. Although it was industry, which was hit the most by the crisis, service sector was effected, too. Reasons for this were many, one of them being the crisis of industrial sector. During the last 15 years, the growth of services has been considerable due to growing demand from industrial firms. Accordingly, changes in industrial have important consequences for service sector. This should not be forgotten when one is talking about services society. Without strong and healthy industrial sector, further growth and booming of services, especially business services, is questionable.

Spatial patterns

After the WWII, government supported development of old and also new industrial centres (Velenje, Nova Gorica, Koper) with emphasis on heavy and/or labour intensive industries. Due to inherited spatial patterns, the northern part specialized in secondary industry processing raw materials, while the development of the southern part was much more based on new industries (automobile, electronics, etc.).

During the first decades, industrial development primarily concentrated in regional centres and in Ljubljana, the capital of Slovenia, leading to concentration of population in cities and depopulation of rural areas. Owing to increase regional disparities, Slovenia had started with its own regional policy in the early seventies, when, in 1971, a special law on more balanced regional development was passed. It introduced special measures for the promotion of faster development for the less developed areas. During the seventies, based on polycentric concept of development, many settlements got their own small branch establishment, providing jobs for local population and preventing migration into central cities. This was accompanied by certain decentralization of services from Ljubljana to regional centers and sometimes to the level of communes (60 at that time). Regional policy measures in the period 1971-1990 have reduced some differences between urban and rural areas. However, it had not developed appropriate measures to successfully deal with decline of industrialized regions that started in the eighties. On the other hand, applied measures also produced some other unwanted results, like lower mobility of people, which is important for normal functioning of labour market.

The characteristics of the evolved spatial patterns are:

- Ljubljana with neighboring cities developed into the most important economic center;
- based on inherited pattern of industrial development, Northern part of Slovenia specialized in heavy and secondary industry of processing raw materials;
- with the support of the state, some new industrial centers developed (like Nova Gorica, Koper, Velenje, Novo mesto);
- during the seventies and eighties, regional policy with its efforts for a more balanced development of Slovenia had limited positive effects, but it contributed to the spread of small labor intensive industrial branch plants into rural communities;
- based on polycentric concept of development, commune centers (60 at that time) actively participated in industrial and service development slowly becoming local employment centers;
- owing to economic crisis and restructuring many small branch plants, established during the seventies and eighties, were closed and local labor force lost jobs;
- according to the trends in modern economies, restructuring has led to even greater concentration of economic activities (industrial and service), especially in Ljubljana and few other larger regional centers with favorable location;
- privatization has effected many aspects of urban life and urban services. Before many services, individual and collective (housing, medical services, childcare, leisure provision, and so on) were provided by enterprises. Now the provision of these services is left to the local or central government or to the market;
- long distance daily commuting increased;
- increase of degraded unused or underused industrial sites.

Industrial restructuring at regional level

Economic base of Slovenian region had been quite diversified and this is one of the reasons why the transition was not so hard. However, there is a marked difference in the structure of regional economies. Two regions could be labeled as service regions, although they also have a higly developed industrial sector. These regions are Osrednja Slovenija with the capital Ljubljana and Obalno-kraška region as touristically most attractive. They were the most developed regions in

Slovenia at the beginning of the transition and during the nineties, their relative position has even improved.

In other regions industry is prevailing activity. Different economic structure of the regions has influenced the intensity of adjustment problems, especially the unemployment, in individual regions. Some of them have found themselves in very hard economic situation. This is especially true for old industrialized regions, Zasavje, Podravska, Savinjska and partially Gorenjska[1], with traditional industries. On the other side, Dolenjska, as a newly industrialized region with prospective economic structure, has become one of the most propulsive regions, with high share of foreign investments.

As a consequence, there exist rather large and in some cases growing regional disparities in Slovenia as regards population, employment, sectoral structure, economic activities and the efficiency of the economy (table 4).

[Insert Table 4]

Disparities in GDP reflect differences in regional economic structure and in the restructuring process. Zasavje, Podravje, and Savinjska, which were among the developed regions before, are now the most problematic areas, since restructuring implied a loss of jobs in labour intensive industries in old industrialised areas either trough bankruptcies or downsizing of production and employment. Variation between GDP and income tax base are due to the high daily migration of workers to other regions.

During the second half of the 1990s, the growth continued in the most dynamic regions, being Osrednja Slovenija, Obala in Kras, and Dolenjska. Some of the previously declining regions are slowly improving, like Savinjska, Podravje and Goriška, while others are still striving.

[Insert Table 5]

Unemployment is still a big problem in many regions (table 5). In some most dynamic, like Dolenjska, Osrednja Slovenija, Obala in Kras is decreasing due to the economic growth, in some due to high daily migration (Gorenjska) or migration, while in the other regions, which were hit the most is still very high. The poor educational profile of the industrial regions undergoing structural change can severely limit future economic improvement unless addressed intensely during the next years. Education should also lead to increased labor mobility, promotion of entrepreneurship and innovation, and development of economic awareness and economic culture in society. The mobility of labor in Slovenia is considerably smaller than in countries with a developed market economy. This is due to several reasons. The first is an ill-adaptation of qualifications to a changing demand for various occupations. Next is a reluctance to change an occupation ensuing from a permanent character of a selected occupation in the previous socialist type of economy. Also important is the passive attitudes of employees and expectations of the state assistance. Last is the housing barrier, which restricts labor migrations within the country. Training schemes aimed at retraining or upgrading occupational skills of employees, as well as setting up their firms, should be decentralized and based on local initiatives.

Owing to restructuring, there is also growing spatial concentration of jobs. Labour migration as an important spatial phenomenon in Slovenia shows this changes clearly. The municipality of Ljubljana alone has more then one fifth of all jobs in Slovenia and attracts labour force from the whole territory of the region, and also other neighboring regions, especially Gorenjska. Its gravitation area comprises 30% of the territory of Slovenia with 38% of total population. Polarization between Ljubljana and other parts of Slovenia increased. As a capital, Ljubljana also benefited from growing services. But concentration is underway in other regions, too. The data show that eleven urban municipalities have together more then half of all jobs. Maribor (Podravje), Celje (Savinjska), Novo mesto (Dolenjska) and Murska Sobota (Prekmurje) are regional employment centers, while all others are only local. Such a situation has forced many to move closer to their jobs, what is reflected in population changes during the last decade (table 6). The population of Savinjska, Podravska and Zasavje is decreasing, due to

[1] Gorenjska had much more diversified economy, also in service sector. Although certain parts of the regions were almost devastated by crisis in steel, textile, basic metal and leather industries, on average the region was doing better than other old industrial regions. The region also benefited from the state aid for restructuring of ironworks.

harsh economic situation. N the other side, Dolenjska's population is growing. The same apply for Osrednja Slovenija and Obala in Kras, as the most propulsive regions.

[Insert Table 6]

Monostructural old industrial region - Zasavje

The most monostructural region was Zasavje, which is the smallest region (46.800 population) but with the highest density (177/km2). In the past, it was one of the most developed industrial regions. Its economy was based on mining and electricity production. Furthermore, other industrial activities were more or less directly connected with the Ironworks. As a monostructural economy it was very sensitive to economic changes. During the eighties, it started slowly to stagnate. However, the measures undertaken to change the course of the development, had not been successful. In 1991, two thirds of all its jobs were still in industry, what was quite above the national average. During the nineties, the situation has worsened in mining and electricity production, causing the loss of many jobs. The unemployment has been increasing and registered unemployment rate has been reaching 20 percent. Many left the region, while others migrate daily to Ljubljana, where it is much easier to find a job. This migration of labor force is also explaining big difference in gross value added and income tax base per inhabitant (they are earning their income outside the region).

When at the state level the decision had been made, that most of Slovenian mines needed to be closed, the region future became even more uncertain. The coal from Trbovlje-Hrastnik mine is mainly used by steam power plants, the biggest being in Trbovlje. Building a one more in Trbovlje was proposed as a solution. However, due to growing ecological standards and economic reasons (liberalization of energy market), the planned steam power in Trbovlje will not be built. Even the long-term existence of the old one is questionable.

Found in this hard situation, the region has started to organize and lobby for itself. Very early, the regional development agency was established, which has been very active since. It has prepared a development program for the region and succeeded, that restructuring of the region became a national issue. The law2 on closure of Trbovlje-Hrastnik mine has together with resources provided for activities connected to the closure of the mine (around 140 million DM for technical activities, ecological rehabilitation of sites, re-employment of miners, etc.) provided additional financial resources for economic restructuring of Zasavje for the period 2000-2008. During the five years period (2000-2004), the region will receive around 40 million DM for building economic development infrastructure, human resources development, and promotion of investments and economic restructuring. The amount for next four years will be specified later.

One of the most important goals is to support the restructuring of already existing enterprises and the development of new one. The level of entrepreneurship in Zasavje is far below the Slovenian average. On the other side, some manufacturing firms exist, which could develop successfully. They are the main contributors to regional export (90 percent of all export revenues). The most important industries are manufacturing of electrical and optical equipment, non-metallic mineral and chemical products. However, they need support with upgrading their technological level of production, marketing, and management. They want to establish common technological and innovation center, which will enable them to join their R&R resources and develop synergies. In the field of human resources, regional education and training center for manufacturing will be established. In addition, the labor fund should also be established for offering special help to workers.

Old industrial regions with more diversified but outdated economic structure – Savinjska and Podravje

Savinjska and Podravje have long tradition in industrial production, with heavy industry and manufacturing of semi- and final-products. After the partition Yugoslavia and tide restrictions on entry to EU market, demand for their products has shrunk considerably, what left them with overcapacities in many branches. Still the process of restructuring reveals important differences.

[2] Law on closure of the Trbovlje-Hrastnik mine and developmental restructuring of the region, Official Journal RS, Ljubljana, 2000.

Savinjska

Savinjska, an old industrial region with much quit diversified economic base ranging from heavy industry (ironworks, power plants, mining) to consumer goods and from tourism to business service, has two development poles, Celje (old industrial center) and Velenje (new industrial center). Economic recession started in 1989 and developed into crisis in 1992, and has had different effects on two centers. Past economic development was based on big companies. In Velenje, most of them have survived by succeeding to adopt themselves on changed conditions and start new development cycle quickly. In Celje, the situation was completely different. Owing to disintegration and bankruptcy of many big companies, the unemployment in Celje has been very high since 1992. In few years more than 10.000 jobs were lost, since labor-intensive companies were hit the most. The crisis accelerated in 1995 and 1996. The recovery started slowly a year after. Despite the important changes, industry is still a leading sector. In 1997, two thirds of jobs were in industry, which contributed 66 percent of the gross value added. The most important industries today are machinery and equipment, food and tobacco, textile, chemical (especially pharmaceutical) and non-metallic mineral products. Some of the companies are successfully competing on a world market, but all together, the economic situation of the region is not really in a good shape.

Savinjska has the advantage of good location. By the construction of new highways, its accessibility will increase further, making it more attractive for investments. Also regional agency, established in 1996, was actively seeking foreign partners, ready to invest in Savinjska. Since some big companies survived and consolidated themselves, they can be the generators of future development. Due to good possibilities for tourism and service development and with slowly recovering industrial sectors, the future prospects are rather good.

The most important regional project, co-financed by state, is the establishment of Slovenian center for heavy equipment, which should serve as a nexus of a growing cluster in the region.

The transition in Podravje, with Maribor as an old and very strong industrial center being second to Ljubljana, has many negative side effects. Disintegration of big companies, large overcapacities in metal, auto and machinery industries, outdated programs and products, and the lack of high quality managerial and professional cadre have been main reasons for much worse situation of Podravje's economy in comparison to Slovenian. The state, with inappropriate actions and slowness also contributed its share. Through bankruptcies and cutting down of employment many jobs were lost and Podravje has had the highest unemployment in Slovenia.

The slow recovery started in 1997. Although Podravje's industry was badly hit, it still produces almost half of the gross value added in the region. Podravje is actively seeking foreign investments, and some companies have found foreign partners or were sold to foreigners.

Degraded urban areas

The restructuring process has caused many spatial problems to old industrial cities, living them with weak local economy, few revenues, many social problems and vast areas of derelict and abandoned land as a result of industrial decline or the relocation of production to other sites. These areas are very often also ecologically devastated, for which reuse special treatment and resources need to be provided. Regarding their structure, size and location, degraded urban areas are valuable assets for redevelopment of cities. They can be redeveloped for almost any new use. They also sometimes offer new opportunities for restructuring of city centers (i.e. Maribor, Jesenice, Kočevje etc.), for rerouting traffic links between areas and for resolving some other specific functional problems[3].

Industrial areas, mining areas and transitional areas comprise tree fourth of all degraded areas in Slovenia, more than one half being industrial areas. For mining areas like those in Zasavje region, it is expected that they will be renaturalized (open landscape or restored to agricultural use). Industrial areas are frequently larger and compact complexes. Some of them have been already transformed for other uses (commercial, services, modern business zones, etc.). Local governments are not directing and regulating this transformation due to the absence of effective land policy and planning instruments on their disposal. Division and subdivision of uniform and compact areas has very often resulted in problems of accessibility, compatibility of uses, maintenances of infrastructure, etc. They need the improvement of accessibility by the introduction of public spaces and new access routes, what is, owing to private ownership of land, hard to realize.

[3] Koželj, Janez, Degraded urban areas, Ljubljana 1998.

In old industrial cities, large housing estates for past industrial workers, which are in very bad can also be considered as degraded areas, offering possibility for regeneration.

Regional policy and orientations

For dealing with the problems of transition at the regional level Slovenia was not well prepared.4 Its regional policy in the nineties was oriented towards rural, depopulated less-developed areas. These areas were hit by the transition and restructuring, too, since many small plants closed, but the decline of old industrial centers has had much harder implications. However, the state and cities lack resources to deal with complex problems, which have technological, ecological, regional, economical, social and political dimensions. In the period of transition the problems of industrial restructuring have become very acute and complex, they have technological, ecological, regional, economical, social and political dimensions. Since in the Slovenian regional policy these problems have not been addressed at all, the Slovenian government has been treating these problems in most cases as sectoral and not regional problems. In the absence of a comprehensive regional and industrial policy, Slovenian government has been helping firms with troubles on a case-by-case basis, without any predetermined criteria.

In 1999, a new regional development law was adopted, providing framework, instruments and measures for dealing with declining regions. According to the EU regulation, three priority areas are defined which correspond to Objective 1 (peripheral agricultural and mountainous, depopulating), Objective 2 (with old industry and high percentage of unemployment) and border areas (within the 10 km area distance from the border).

The aim of the law is to provide for coordination between regional policy and all other sectoral policies, with regard to the principles, targets, strategies and instruments that need to be established for effective regional development policy. The task of the coordination will be executed by the new Council for Regional development and National Agency for Regional development at the state level, and by regional development agencies and regional development councils at the regional level.

Sustainable economic growth and catching up with the more developed European countries by increasing the competitiveness of the Slovenian economy is a key goal of Slovenia's economic development strategy. Based upon the strategy, the National Development Program for the period 2000-2002 has been elaborated. Two of the most effected old industrial regions, Zasavje and Savinjska, received a special treatment within the program. The third region, included is Prekmurje. Their regional development programs were incorporated into the national program and the state obliged itself to contribute considerable additional financial resources in accordance with the EU's rules for their implementation.

Role of spatial planning

Changes at the regional level during the last decade have revealed that market forces by themselves cannot provide for a balanced development. Economic development following market signals has concentrated in the already developed regions. Disparities between the least and the most developed regions have increased to 1:3 in the value added.

With the growth of business activities, the demand for available locations is growing. Due to complicated and cumbersome planning procedures, municipalities cannot timely respond to this demand. Especially the provision of larger plots is a problem. Municipalities try to provide for development of business zones, but most of them can satisfy the needs of SMEs only, since they cannot finance purchasing of land for future business development. So they depend upon the land they already possess and on the readiness of private owners to cooperate. They also lack effective land policy and planning instruments on their disposal to be able to direct and regulate the development processes in their communities.

On of the problems is the non-existence of regions and regional planning in Slovenia. Future socioeconomic development patterns should be defined at that level, since most of the municipalities are small (there are 192 municipalities in Slovenia) and with very limited capacities (human and financial) on their disposal. Until recently, the importance of regional institutional building was overlooked. For that reason, regional and subregional development agencies have been established

[4] Republic of Slovenia, Ministry of Economic Relations and Development, White paper on regional development. Ljubljana 1999.

with the task of coordinating all development activities in their area. With the new professional cadre employed, they will also assist municipalities in fulfilling their development goals. The wealth of the cities and regions will depend on the ability to jointly create an economic and political climate that allows their businesses and industries to compete successfully in domestic and international markets. For this purpose, some regional institution will have to coordinate spatial planning activities at the regional level.