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Review article

Received: January 27, 2020
Accepted for publishing: February 25, 2020

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LAGGING REGIONS: THE CASE OF EASTERN CROATIA

Abstract

Uneven level of regional development is something that has characterized Croatia for a long time, with Eastern Croatia lagging behind significantly. There are many indicators that substantiate such a condition as well as the expected trends (e.g. GDP per capita in counties that belong to Eastern Croatia, huge population drain in the region, development index calculated by the Ministry of regional development and many others). As the development level of counties in Eastern Croatia is far from comparable to the most developed ones (especially the City of Zagreb), it is necessary to identify areas for possible improvements in those lagging regions. In the context of the European Union, the development level of counties in Eastern Croatia is particularly low. Other EU members have also failed to achieve convergence towards total homogeneity, but this paper focuses on chosen examples of countries and their regional policies that aimed to decrease existing regional differences. Decentralization level is one of the important prerequisites to decrease existing regional differences and adequately apply regional policies.

This paper will theoretically examine the research on experiences of selected EU lagging regions and note the importance of the relationship between regional and national economy. As all five counties in Eastern Croatia can be characterized as lagging counties, one of the goals of this paper is, in accordance with theoretical insights into European experiences, to compare the situation and trends in the lagging regions and counties in Eastern Croatia, going beyond economic considerations to include a much broader context.

Keywords: Regional development, lagging regions, Republic of Croatia, regional development inequalities, counties

1. Introduction

In the mid-20th century, regional development became a central theme of academic and political life, so those times mark the beginning of the regional perspective. Regional equality in national economic development has therefore become an important part of the political agenda of many countries (Higgins, Savoie, 2018). At the same time, each member state of the European Economic Community turned to different incentive programs in order to stimulate development in less developed regions (Higgins, Savoie, 2018).

Regional economic policy, according to Vanhove (2018: 57), includes all forms of public intervention aimed at improving the geographical distribution of economic activities. Furthermore, in reality, regional policy is aimed at correcting certain spatial consequences of a free market economy, in order to achieve two interconnected goals, economic growth and improvement of social distribution. Vanhove (2018: 57) lists five stages that need to be distinguished: *a) definition of regional problems and their origins; b) definition of objectives, if possible in a quantitative way; c) definition of the strategy*

to be followed; d) indication of the instruments to be used; and e) evaluation of the policy.

Hansen et al. (1990: 2) emphasize that a policy-oriented regional economy recognizes the importance of efficient markets, but also seeks to diagnose sources of significant spatial inequalities and to use regional analysis as a tool to identify the failures that may occur in the economy as a whole. Regional policy represents all conscious and deliberate actions by the authorities to change the spatial distribution of economic and social phenomena, including population, income, state income, production of various goods and services, transport facilities, other social infrastructure and even political power. Capello & Nijkamp (2019) emphasize that the conceptualization and coherent explanations of regional growth, as well as the differences that arise, are a mystery to the research community in many countries. There is no single panacea to increase or accelerate the development of a region in the national economy or in supra-national context. Therefore, regional policy is still in many cases "a black box", and the outcomes of intensified regional growth strategies are often extremely unpredictable.

Structurally, the paper has four chapters. Following the introductory remarks, the second chapter focuses on the theoretical background of the lagging regions, their experiences and the factors of potential progress, with the distinction of two different types of lagging regions. Furthermore, the same chapter examines the opportunities to stimulate development in lagging regions, with a focus on selected European experiences. In the same chapter, the emphasis is placed on theoretically pervasive research on the state of regional development in Eastern Croatia, i.e. five counties of Eastern Croatia. The focus of the third chapter is on the position of the Republic of Croatia and its lagging regions in the context of the NUTS 2 classification[1]. In addition, this chapter elaborates on the macro image of the national economy through the prism of NUTS 2 regions, but also an overview of the county perspective, which provides an insight into the situation within the national economy of the Republic of Croatia. Chapter 4 summarizes the lagging regions theory, as well as the situation and trends in the form of concluding remarks for the Republic of Croatia.

2. Theoretical framework of regions lagging behind: European experience

There is an indisputable relationship between the national economy and the regions of national economy, with the national economy as the sum of its regional components (Römisch et al., 2017). However, these authors state that macroeconomic conditions and policies that influence them do not have the same level of impact in all regions, and therefore macroeconomic development that positively affects one region may even be detrimental to another region. It is therefore necessary to emphasize that the problems faced by lagging regions are sometimes related to national issues, but directly manifest in the regions themselves.

Furthermore, certain regions are lagging not only in comparison with the EU average, but also in comparison with national measures and other regions of the same national economy. In lagging regions there are usually structural problems and issues. It is important to emphasize that those regions of the European Union whose level of development is significantly lower than the EU average are called "catching up regions" (European Commission, 2015)[2]. There are two types of "catching up" regions: *i) low-growth regions are regions that experience a persistent lack of growth and are less developed or transition regions (regions with GDP/capita up to 90% of the EU average), which did not converge with the EU average between 2000 and 2013; and ii) low-income regions, those that remain well below the EU average GDP per capita and apply to all regions with GDP per capita below 50% of the EU average in 2013.* According to the report *"Competitiveness in low-income and low-growth regions"* (2017: 1)[3], both types of regions perform well below the EU average in terms of employment, research and development rates as a GDP share, quality and accessibility of government. Farole et al. (2018)[4] point out that the diversity of regions also requires different approaches, and in this case, the use of different cohesion policies. Furthermore, they state that it is the recognition of the basic differences between the two types of regions, the low-income and low-growth regions, which is the decisive factor in creating a cohesion policy. Low-income regions are poor, but converge rapidly and many, though not all, are well positioned. On the other hand, low-growth regions are really lagging behind and are facing fundamental structural barriers to achieve convergence.

Considering regional development in the context of the European Union, Bachtler & Begg (2018) emphasize the importance of innovation, human capital and efficient institutions as key areas of future policies. Human capital and institutions are also mentioned by Farole et al. in the Report of the World Bank about the European Union as the most important determinants of economic performance (2018: 48): *"...some of the most significant determinants of economic performance are social endowments – human capital and institutions."*

Although human capital is very often cited as a key component of future development, most EU member states are in fact recording negative demographic trends, and thus a problematic issue of future human capital potential. For example, Farole et al. (2018) state that demographics and technology will be highlighted as drivers of divergence (e.g. concentration of educated and skilled workers around metropolitan areas and declining young population, evident in most southern and eastern European regions, which are losing more than 1% of the population a year as a result of low fertility and migration rates). In general, therefore, it can be said that lagging regions report below average fertility and net migration[5]. For example, only two out of the 45 lagging regions have fertility rates above the EU average. Hence, there is increasing divergence in relation to leading regions.

As the need for a specific regional policy in line with the requirements of a particular region, or at least several types of tailored regional policies, has already been emphasized, the specific approaches to policy in lagging regions are highlighted in Figure 1 below.

Figure 1 Templates of policy approaches in lagging regions

Source: Farole, T., Goga, S., Ionescu-Heroiu, M., (2018), "Rethinking Lagging Regions: Using Cohesion Policy to deliver on the potential of Europe's regions", International Bank for Reconstruction and Development/The World Bank, Washington, DC, available at: http://pubdocs.worldbank.org/en/739811525697535701/RLR-FULL-online-2018-05-01.pdf (Accessed on: October 9, 2019)

The four quadrants shown (Figure 1) can be interpreted as follows (Farole et al., 2018): i) *Densely populated, centrally located region (upper right quadrant):* These regions are generally not those belonging to lagging regions, with the stage of the integration process as a possible reason. However, if it does belong to lagging regions, usually it is a serious failure of the government and/or major institutional weaknesses or conflicts; ii) *Densely populated, peripherally located region (lower right quadrant)*: these regions, which are as lagging regions numerous in the European Union, especially among "low-growth" lagging regions, represent the types of regions where typical place-based sectoral

or spatial investments - for example, the implementation of Smart Specialization Strategies — were effective in overcoming coordination errors to unlock agglomeration; iii) *Sparsely populated, peripherally located regions (bottom left quadrant):* These regions generally lack the key ingredients required for sustainable transformation to develop high-added-value activities as they lack agglomeration potential and face severe market access constraints. A focus is needed on creating equality of opportunity for individuals in the region - to develop institutions to support the quality of social services with a focus on human capital accumulation. In rare peripheral regions where advanced quality institutions exist and human capital has already reached a high level, a targeted opportunity for regional economic development should emerge through existing institutions; iv) *Sparsely populated, centrally located regions (upper left quadrant):* These regions are often located near larger agglomerations, so the priority is to improve connectivity to the agglomeration. Targeted sectoral investments may also be relevant in this type of region. The challenge is the limited potential of agglomerations, meaning that specialization is extremely important, which raises the typical risk of regional industrial policy that aims to "pick winners".

If we discuss specific examples of regional policy implementation, we can consider the research of Brown et al. (2017)[6], who studied eight selected lagging regions in EU countries (Spain, Italy, Portugal, Romania, Greece, Bulgaria, Hungary, Poland) and reported remarkable heterogeneity in the approach to those lagging regions. Among the eight studied, Spanish regions have a bridge federal structure with regions enjoying a high degree of autonomy while adapting their policies to investment needs, even despite the imposed central budget constraints. It should be noted that the competences of the Spanish regions, the so-called *autonomous communities* include, but are not limited to, territorial development, the economy and economic development, agriculture, social policy, the environment, health, education and others, either shared with the state or kept within *autonomous communities*.

The degree of autonomy of regions and national policies regarding regional development are strongly related, as pointed out by Brown et al. (2017). Among the eight countries studied, Italy traditionally has the most developed national strategy for regional development, with a strong focus on its lagging southern regions. This is reflected in the Italian organizational approach, and thus the national regional policy is highly institutionalized, in terms of both the amount of funding and their own resources, in order to boost growth in developing regions. Spain is right behind Italy (relative to the countries studied), with a national regional policy in place. Contrary to Italy, in Spain's regional policy, given the high degree of autonomy of its regions, national policies do not interfere with regions in the form of setting investment priorities. Instead, Spanish policy is implemented through the redistribution of funds from more to less developed regions, thus helping economically weaker regions in a financial sense. Among other countries in the analysis, Greece with its own national regional policy, mainly operates through the centrally established *"Public Investment Program".* Compared to Italy and Spain, the size of Greece's national policy in financial terms is small, which makes Greece significantly more dependent on EU cohesion policy than the other two countries. For the remaining five countries, including Portugal and four Eastern European countries whose regions are lagging behind, it is necessary to emphasize that there are no major national regional policies.

Farago & Mezei (2018) state that the international academic literature pays insufficient attention to the fact that unified European regional/cohesion policy and regulations, as well as changes that occur within it, produce different effects in developed (center) and transition countries (periphery). The countries of Central and Eastern Europe are lagging behind in terms of progress and future in the European Union. In addition, academic debates about European regional policy and planning are also dominated by Western and Northern European leaders. Therefore, authors emphasize that in a "unified Europe" periphery should also be entitled to its share in the reconstruction of Europe.

The following chapter is a comprehensive theoretical account of previous research into regional development of Eastern Croatia.

2.1 Review of previous regional development research of Eastern Croatia

There are five counties in Eastern Croatia and all of them have an extremely low level of development, most of them lagging behind. There are many reasons for this, but we can single out consequences of

the war as the main one. Accordingly, it should be noted that the academic literature contains analysis that indicates the possibility of exploiting war-affected areas for economic gain, for example for tourism purposes. For example, Šulihoj (2017) explored the mentioned topic for the territory of the Republic of Croatia, pointing out that war-damaged areas can become tourist destinations. Nevertheless, as stated by Klarin (2018), it is necessary to introduce the concept of sustainable development, which would reduce the negative impact of tourism. The implementation itself depends on a number of factors. Highlights are, for example, creating a stimulating institutional environment, proactive local governments, engaging the local population and educating the stakeholders about governance and sustainable development principles. Searching for the means of sustainable development, Bartoluci et al. (2015) analyze the state of rural tourism in Croatia and emphasize the need to use ecologically preserved space according to the principle of sustainable development. Denona Bogović et al. (2016), analyze the developmental characteristics of Eastern Croatia and the increase in developmental divergence, i.e. regional inequality, with respect to comparative advantages. They propose the implementation of the "green economy", which reiterates the importance of sustainable development principles. So, the prerequisites for implementation and transformation of the current economic structure of this region should be oriented towards a strategic commitment and implementation of development policy according to the principles of a green economy.

If we take into account the demographic factor, recorded trends are very discouraging.[7] In terms of unfavorable trends, Matišić & Pejnović (2015: 101) claim that *"Eastern Croatia is the largest problem area of Croatia in recent times."* Lončar & Marinković (2015) also analyze the socio-demographic processes in Eastern Croatia. At the heart of their research, which relies on several selected demographic and economic indicators, is the structure of certain economic activities as well as the population, which they emphasize should be the basis of regional development.

Continuing on the earlier point of the impact of human capital on changes in regional development, Borozan (2015) highlights significant regional economic disparities, explores internal migration flows, tests for economic convergence and assesses the effects of internal migration (net and gross) on convergence and growth. The results point to the following: *i) contrary to expectations based on neoclassical theory, Croatian counties face complete and conditional economic divergence; ii) in- and out-migration works symmetrically; iii) net migration mainly appears to be a force that accelerates divergence, just opposite to gross in- and out-migration; iv) although estimated parameters of net and gross migration have expected signs, their effect size lies in the range of statistically significant but minor to insignificant; v) migrant characteristics and behavior matters when the effect size is considered.* In addition to its focus on migration flows, the academic literature on regional development also examines other important economic issues. Talking about public sector employment and the share of self-employment, Botrić (2012) shows that at the regional level, public sector employment is negatively correlated with the share of self-employment and that the educational level of the self-employed is an important category for clarifying differences in Croatian counties.

Current research also includes an analysis of the sectoral structure of the economy for the five counties of Eastern Croatia, covering the period from 2009 to 2017. The results of the analysis show that some counties have relatively smaller local competitiveness than the national average, while some have a positive value of the local component, which indicates an increase in local competitiveness (Trinajstić et al., 2019). Regions' strength tests are also conducted at the regional level and through some empirical analyses. Čučković et al. (2013), for example, examine the regional competitiveness of Croatian regions, grouping them based on major competitive strengths and weaknesses. The analysis confirms that Central and Eastern Croatia, on average, are the least competitive regions and require long-term efforts to catch up with the rest of the country. Furthermore, decision makers should certainly take into account that significant investments are needed to support entrepreneurial and innovation activity along with investments in business infrastructure. It is important to emphasize that the potential on which the competitiveness of the region will be built in the future is positively correlated with the level of education of its inhabitants.

Elaborating on the suggestions about the necessity of education as a part of human capital that can be improved, the author of this paper had an insight

into the Statistical Reports of the Central Bureau of Statistics[8] on higher education in 2013-2016 by place of residence. These reports show that the share of students who have graduated from university or professional studies by county and city/municipality of residence, decreased in all counties of Eastern Croatia, and in the City of Zagreb in 2016 compared to the initial observation in 2013, suggesting the already well-known demographic problems and "loss" of population. It is clear that long-term education processes should be taken into account, and the alarming results of the reduced enrollment quota may not be visible for three, four or more years, but should not be neglected.

The economic development of individual counties is presented in a European context by the analysis of the Croatian Chamber of Economy (2019). It is evident that in 2015 Croatian counties were in a more unfavorable situation than in 2008 compared to each other, but also to the context of the European Union NUTS 3 regions (Table 1).

It should be emphasized that such a change may lie in the fact that other NUTS 3 regions of the European Union have advanced significantly compared to the 2008 data, but also potentially in the poorer performance of the areas for which such indicators were recorded. Furthermore, the same table also shows the development index in 2018, again showing all five counties of Eastern Croatia lagging behind significantly, with slightly better recorded results of Osijek-Baranja County compared to the remaining counties of Eastern Croatia.

Table 1 Comparison of the rankings of the counties of Eastern Croatia and the City of Zagreb by GDP per capita by PPS, 2015 (EU28 = 100) and for 2008, including the development index

County	Ranking 2015	Ranking 2008	Index 2015	Index 2008	Development index 2018[9]
City of Zagreb	362.	336.	107	109	117.758
Osijek-Baranja	1236.	1174.	46	53	96.009
Vukovar-Srijem	1309.	1257.	34	40	91.992
Požega-Slavonia	1313.	1256.	33	40	93.947
Virovitica-Podravina	1317.	1242.	32	42	90.666
Brod-Posavina	1318.	1279.	32	37	93.449

Source: Author's editing, according to sources from Croatian Chamber of Economy (2019), "Razvijenost statističkih regija NUTS3 razine u Europskoj uniji", available at: https://www.hgk.hr/documents/gospodarska-razvijenost-nuts-3-regija5c49bd13e22f8.pdf (Accessed on: October 13, 2019); Development index 2018 values were taken from calculations done by the Ministry of Regional Development and EU Funds, available at: https://razvoj.gov.hr/o-ministarstvu/djelokrug-1939/regionalni-razvoj/indeks-razvijenosti/vrijednosti-indeksa-razvijenosti-i-pokazatelja-za-izracun-indeksa-razvijenosti-2018/3740 (Accessed on: November 17, 2019)

The positive impact of entrepreneurial activity on economic growth is significant, as confirmed by the research conducted by Korent et al. (2015), emphasizing the importance of entrepreneurship for regional development at the level of Croatian counties. Advisable recommendations for the underdeveloped regions of Croatia can be found in good practices of foreign countries. For example, Bojar et al. (2016) cite a positive example of clustering in Polish agriculture and food production industry. In addition, there are indications of increased importance of such trends for regional development and growth, making local and regional business establishments and farms more competitive and profitable. Many EU member states have also implemented cluster-based strategies, and Anić et al. (2019) emphasize different aspects of clustering, with some members interested in lobbying activities, while others are focused on networking and innovation for the most important clustering goals. The Ministry of Economy, Entrepreneurship and Trade (2019)[10] source points out that the Smart Specialization Strategy of the Republic of Croatia for the period 2016-2020 is focused on the need to connect and involve all participants in the innovation system, i.e. business and scientific communities with local and regional government and state administration. Obadić & Tijanić (2014) emphasize the important role of clusters in accelerating regional and national economic development. Based on mul-

tivariate analysis results these authors found that those who felt clusters were unnecessary were also members of a cluster with a small number of employees who were dissatisfied with various jointly organized marketing activities, lobbying, research, development and education. Therefore, results also indicate that more effort should be put into trying to use clustering capabilities and opportunities, as well as defining the purpose, objectives and benefits of clustering in a simpler way.

Therefore, in the continuation of this paper, an attempt is made to investigate at what level it is possible to stimulate the development of lagging regions, taking into account various barriers that may be encountered when creating certain solutions.

2.2 Encouraging the development of lagging regions: cohesion policy

Given that regional economic development, as well as the needs of different regions, is a process related to the category of dynamism, adjustments are needed in the ways of implementing regional policy as well as in setting its goals. According to the UNESCO website (2017)[11], EU regional policy, i.e. cohesion policy, aims at improving the economic well-being of regions in the European Union and avoiding regional differences, with regional policy directed at all regions and cities in the European Union to ensure job creation, business competitiveness, economic growth, sustainable development, but also to improve the quality of life of the region's inhabitants. Furthermore, as stated by Tulumello (2016), European cohesion policy was established in response to the risk of market integration that could possibly exacerbate national and regional socio-economic imbalances.

Vanthillo & Verhetsel (2012: 1) point out: *"Due to the changing role of the "region" in economic development, it appears that policies targeting regions underwent significant changes in goals, geographical scope, governance and policy instruments."* Bachtler, Mendez & Polverari (2016) provide a comprehensive overview of proposals for possible changes to the expected cohesion policy for the coming period taking into account, among other things, a potential way of improving the existing administrative capacity of the regions. Gänzle et al. (2018) cite that the European Union is implementing macro-regional strategies as a new EU governance tool, combining territorial community cooperation and a repertoire of cohesion policies with intergovernmental regional cooperation including EU Member States and partner countries (e.g. Baltic Sea, Danube, Adriatic-Ionian i Alpine macroregion strategies). In order to better monitor and harmonize inter-regional and intra-regional needs, certain analysis are also carried out, e.g. Chmieliński (2017)[12], on the topic of policy recommendations on how to integrate cohesion policy with urban and rural policies.

Regarding regional policy and regional development, Rodriguez-Pose & Ketterer (2019) state some interesting facts on econometric research for the period 1999-2013: i) the quality of government is of utmost importance in regional growth; ii) relative improvements in government quality are a strong driver of development; iii) one-size-fits-all policies in the case of lagging regions are not the solution; iv) improving the quality of government is crucial for low-growth regions; v) in low-income regions, the ability to reduce contributions is still a major barrier to development. Thus, the low-growth regions of Southern Europe benefit the most from the improvements provided by the government, while the low-income regions of Central and Eastern Europe consider investing in traditional drivers of growth to be the main tool for successful economic development.

Given the evident complexity of creating adequate regional policies to minimize disparities and achieve convergence of economic outcomes, as stated by Farole et al. (2018: 62), remains an unrealistic expectation. Therefore, it is crucial to form so-called fundamental theories of place-based policy, thereby removing market barriers to production factors as a mechanism to stimulate hidden economic resources rather than redistribution or equal convergence. For the post-2020 period, it is recommended to implement a region-centered cohesion policy that focuses solely on maximizing regional potential. Two goals are set: i) to maximize regional potentials, measured not only by output per capita but also by the capacity to create quality (productive) jobs (EPI - Economic Potential Index); ii) to ensure equality, that is, an opportunity for individuals to reach their potential. So, when creating place-based goals, there is a clear focus on potentials. Furthermore, while the goal of convergence remains, it is not defined in terms of spatial economy outcomes but in terms of social outcomes and individual opportunities.

According to the New Cohesion Policy (2018)[13] for the period 2021–2027, as the European Union's main investment policy and one of its most concrete expressions of solidarity, the European Commission has proposed a modernized version of Cohesion Policy, which for example in the context of regional development includes: i) regional development investments targeted by Objectives 1 and 2; 65 to 85% of ERDF and Cohesion Fund resources will be directed towards these priorities, depending on the relative economic strength of the member state; ii) cohesion policy continues investment in all regions, respecting the categories of less developed, transitional and more developed; iii) new types of interregional and cross-border programs ("Interreg") will help member states to overcome cross-border obstacles and develop common services, and the Commission also proposes a new instrument for border regions and member states seeking to harmonize their legal frameworks, called The European Cross-Border Mechanism; iv) a development template based on a successful pilot programs 2014-2020, with the Commission proposing the creation of an Interregional Innovative Investments system, where regions with similar areas of smart specialization will be supported in creating Pan-European clusters in priority sectors such as big data, circular economy, advanced manufacturing or cyber security.

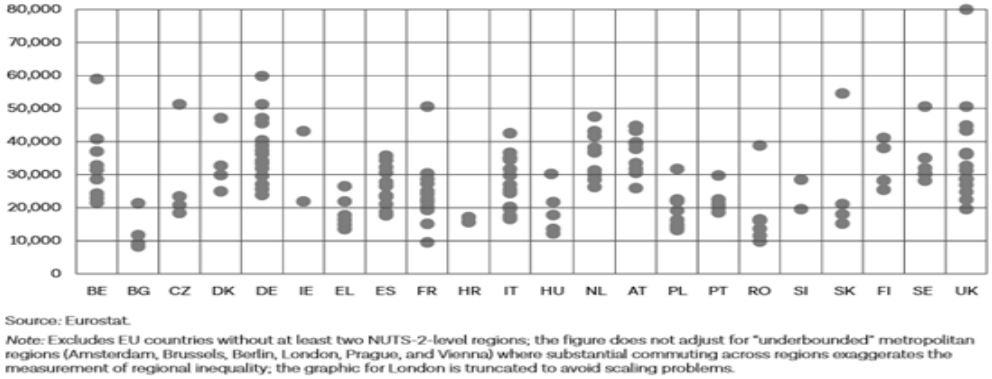
Farole et al. (2018: 48) present interesting data on future radical restructuring of the economic hierarchy in European regions in the coming two cycles of cohesion policy, in case the current trends in low-income and low-growth regions continue. As early as the next cohesion policy cycle, in 2021, low-income regions will on average reach 50% threshold of the European Union average by its definition of low-income regions. Consequently, by the end of the next cycle of the cohesion policy program, low-income and low-growth regions will switch positions, with the average of low-growth regions falling to the 50% threshold and the average of low-income region rising significantly above it. By 2035, low-income regions will have achieved a transition stage. The same authors (2018: 52) point out that the report suggests increasing attention to existing low-growth regions as a critical challenge of cohesion policy in the future programming period in order to ensure that current low-income regions do not become future low-growth regions. Furthermore, significant heterogeneity in low-income regions is indeed present, suggesting that there is a high possibility that certain regions will be able to converge while others may be lagging behind (delaying progress). These authors (2018: 53) also cite the important fact that social outcomes do not always follow economic outcomes. It is obvious, therefore, that relatively high levels of income are a necessary but insufficient condition for securing high social outcomes (2018: 54): *"... you can have a rich region and still have great social outcomes, but you cannot be a poor region and have good social outcomes."* Cohesion orientation on the interpersonal level, not just on the territorial level, a more sophisticated focus on human capital and, more broadly, social outcomes, even in high-income regions will be very important. Therefore, the local and regional levels of government play an important role. For example, the same authors state that economic progress at the regional level can be evident in economic and social outcomes for the household and the individual. If regional policy focuses on generating sustainable and quality job opportunities for all its working age residents, especially women and young people, it has multiple effects on the regional labor market. Furthermore, labor market outcomes are important not only because work and earnings are channels through which economic progress at the regional level is translated into household and individual economic and social outcomes, but also because work has significant positive economic and social externalities as future workers become more effective in the presence of others workers, and tend to invest more in building next-generation human capital.

After an extensive insight into European practice and the situation in selected countries regarding the possibilities of progress of individual regions and their development, followed by a theoretical background and the empirical study of the area of Eastern Croatia, the analysis of the economic situation and trends regarding regional development in Eastern Croatia as a lagging region is presented below.

3. Discussion of regions lagging behind in the context of Eastern Croatia

The regions[14] of the Republic of Croatia, compared to most regions of other EU member states, have a much lower level of development expressed in GDP per capita with respect to purchasing power parity (Figure 2). It is evident from Figure 2 that the level of realized GDP per capita (PPS) in the Republic of Croatia for both regions is at a lower level in relation to other regions of EU member states.

Figure 2 Distribution of GDP per capita (PPS) across regions within EU countries, 2015



Source: Eurostat.

Note: Excludes EU countries without at least two NUTS-2-level regions; the figure does not adjust for "underbounded" metropolitan regions (Amsterdam, Brussels, Berlin, London, Prague, and Vienna) where substantial commuting across regions exaggerates the measurement of regional inequality; the graphic for London is truncated to avoid scaling problems.

Source: Farole, T., Goga, S., Ionescu-Heroiu, M., (2018), "Rethinking Lagging Regions: Using Cohesion Policy to deliver on the potential of Europe's regions", International Bank for Reconstruction and Development/The World Bank, Washington, DC, available at: http://pubdocs.worldbank.org/en/739811525697535701/RLR-FULL-online-2018-05-01.pdf (Accessed on: October 9, 2019)

The observation of Eastern Croatia in the context of other counties of the Republic of Croatia points to the existence of exceptional differences and inequalities within the country. Economic indicators confirm the stated differences, as well as their increase[15]. Dragičević & Letunić (2008) state that regional differences that create even bigger gaps are inherited from the earlier system; they have been obvious since Croatia became independent, but have only increased as a result of the war and the lack of government strategies and policies to address this problem. Regional development, simply expressed, was not a central policy issue. Furthermore, certain authors, for example, Bićanić & Pribičević (2013), consider regional inequalities for an extremely long period, taking into account the forty-year period between 1968 and 2008.

The regional development of the Republic of Croatia is determined by the Law on Regional Development (NN 147/14, 123/17, 118/18; hereinafter referred to as "the Law")[16], and the current version has been in force since January 1, 2019. The very purpose of implementing regional development policy, as an instrument for change at the regional level of the Republic of Croatia, is defined as the need to create the appropriate conditions, as stated in Article 2 of the Law: *"The aim of the regional development policy is to contribute to social and economic development of the Republic of Croatia, in accordance with principles of sustainable development, by creating conditions that will enable all parts of the country to strengthen their competitiveness and realize their own development potential."*[17] The body responsible for the implementation of policies addressing the inequalities within the country and aimed at the balanced regional development is the Ministry of Regional Development and EU Funds. The Ministry measures the degree of development of each area by the development index. The analysis of this index as an indicator of the Croatian regional policy is given by Perišić & Wagner (2015). In the current NUTS 2 classification, which is particularly important because of its statistical recording capability, the Republic of Croatia is divided into two[18] NUTS 2 regions. However, this classification has been met with numerous negative comments and consequences. The introduction of a new classification is already presented and a study has been made for this purpose by *the Institute for Development and International Relations* (hereinafter referred to as "the Study") (Puljiz, Biondić, 2018)[19]. The Study notes that changes in the number of NUTS 2 regions have already been addressed in certain countries. Generally, the common denominator refers to the extrication of an area that deviates significantly, in positive or negative terms, from GDP per capita from other areas, and most commonly by separating the capital city from the rest of the NUTS 2 region. Puljiz & Biondić (2018:16) cite some important changes suggested in the study: *"The possibility of isolating the City of Zagreb for the first time as a separate NUTS 2 region is an important novelty,*

which can finally determine the division at NUTS 2 level which will provide the greatest degree of advantage in using EU funds as well as in securing regional subsidies". In addition, there are three objectives of the new division of NUTS 2 regionalization that are to be achieved (Puljiz, Biondić, 2018: 27): *„i) to provide the greatest possible degree of advantage for as many residents of the Republic of Croatia as possible with regard to the rules for granting regional aid; ii) to ensure the best possible conditions for the use of Cohesion Policy funds for the largest area of the Republic of Croatia; iii) to form as homogeneous regions as possible in terms of development and other important features".* Puljiz et al. (2019) elaborate on the results achieved in the implementation of cohesion policy in the Republic of Croatia so far, as well as clarify how it will be approached in further development of the cohesion policy.

The Croatian Chamber of Economy (2019)[20] in its *Sector for Financial Institutions and Economic Analysis, Department for Macroeconomic Analysis*, produced a ranking of Croatia's NUTS 2 and NUTS 3 regions relative to the rest of the European Union. In 2008, most of the counties in Croatia, which belong to the NUTS 3 level, were ranked lower than one thousand. It is extremely important to emphasize that the three worst ranking counties were those in the region of Slavonia (Table 2). At the same time, large differences in the development of Croatian regions are noticeable, with the City of Zagreb taking the place of the most developed Croatian county with 2.9 times higher GDP per capita, expressed in PPS, while the worst ranked for the stated period was the Brod-Posavina County. The data for 2015 shows that Croatian counties are in a less favorable position than in 2008 in the context of the European Union NUTS 3 level. The data for 2015, from the same source, indicate widening differences between Croatian counties, as the differences between the most developed and underdeveloped counties increased by 3.3 times. The City of Zagreb maintained the leading position in terms of development, while the least developed counties were Brod-Posavina and Virovitica-Podravina counties. Furthermore, in 2015, as many as four Slavonian counties were also the worst positioned in the context of the Republic of Croatia (Table 2).

Puljiz & Biondić (2018) point out that, according to the range of differences at NUTS 3 level, Croatia does not deviate significantly from most other member states in Central and Eastern Europe, but when we consider the differences between NUTS 2 regions, differences are significantly larger in Continental Croatia than in Adriatic Croatia. The same authors further state that in Continental Croatia the ratio between NUTS 3 regions, i.e. between Croatian counties, with the highest and lowest GDP per capita is 3.17, while in Adriatic Croatia it is 1.62, i.e. Continental Croatia is a more heterogeneous region when considering the level of development of the associated NUTS 3 regions compared to other NUTS 2 regions in the 11 Eastern European countries. It is necessary to emphasize that the current classification of counties into the appropriate NUTS 2 regional level has led to a paradoxical ratio of regional aid, where currently counties with a lower level of development can achieve a lesser degree of regional aid than counties with a higher level of development. It is worth mentioning that in terms of the highest amount of aid awarded, out of a total of five as many as three relate to the Slavonian counties, namely Osijek-Baranja, Vukovar-Srijem and Brod-Posavina. Thus, although the least developed counties have attracted the funds needed for investment, given the dynamics of GDP per capita and certain demographics, it is evident that the grants awarded were not sufficient to significantly improve socio-economic opportunities in eastern Continental Croatia. At the request of the *Ministry of Regional Development and EU Funds*[21], and according to research by Apsolon[22], several Croatian towns were selected to receive physical, economic and social support, including Beli Manastir, Benkovac, Petrinja and Vukovar. The main challenge for the central governance mechanism is to create an investment model that would propel the economy and reduce emigration from those most deprived areas.

Gazilj et al. (2016) emphasized the importance of the legal basis needed to implement the institutional framework at the regional level and its effectiveness. The basic problem of Eastern Croatia is related to reduced economic and social development. One of the main reasons for the developmental decline of the region of Eastern Croatia is the lack of self-government status, since Eastern Croatia is made up of the already mentioned five counties. Therefore, with the necessary implementation of regionalization within the Croatian territory, as well as possible solutions due to development problems, the authors propose the efficient use of EU funds and greater accountability and efficiency of state institutions.

The Croatian Chamber of Economy (2019) further states that drawing on EU funds is positive in its impact on regional development; the amount of funds drawn is inversely proportional to the development level and thus underdeveloped regions should and must use the full range of options at their disposal. Furthermore, since the City of Zagreb is currently in the Continental Croatia classification and thus does not give a realistic picture of the development level, and the Central Bureau of Statistics estimates that in 2017 the City of Zagreb exceeded the population needed to become a NUTS 2 unit, the newly created region of Continental Croatia could benefit significantly from EU funds. Therefore, the *Ministry of Regional Development and EU Funds* has already initiated the modification of the existing NUTS 2 regions.

The economic indicators of the selected counties are given below (Table 2).

Table 2 Basic economic indicators of selected counties for 2015 and 2016

County	GDP per capita (EUR)	GDP per capita in PPS (EU-28=100)	Gross added value (base prices)	GDP per capita (EUR)	Indexes (HR=100)	Gross added value (base prices)
	2016			2015		
Brod-Posavina	6 292	34.3	2.0	5 962	56.3	2.0
Osijek-Baranja	8 834	48.2	5.5	8 413	79.5	5.6
Požega-Slavonia	6 346	34.6	1.0	6 061	57.3	1.0
Virovitica-Podravina	6 190	33.8	1.0	5 852	55.3	1.1
Vukovar-Srijem	6 563	35.8	2.3	6 235	58.9	2.4
City of Zagreb	19 546	106.6	33.6	18 579	175.5	33.4

Source: Croatian Bureau of Statistics, First Release Number 12.1.3., Zagreb, February 12, 2019, from Table 2. GDP for Republic of Croatia at NUTS 2013 – 2nd level and by counties, 2016; Table 4. Share in gross value added of the Republic of Croatia, at NUTS 2013 – 2nd level and by counties, 2016; First Release Number 12.1.3., Zagreb, February 15, 2018, GDP of the Republic of Croatia at NUTS 2013 – 2nd level and by counties, 2015, available at: https://www.dzs.hr (Accessed on: November 2, 2019)

The necessity of self-government status, as stated by Gazilj et al. (2016), with the need for decentralization, is interpreted by Jurlina Alibegovic (2013), who analyzes reforms within decentralization framework and their effects on regional and local development process in Croatia. In doing so, the author points out that there is a link between the degree of decentralization and the degree of regional development. Reforms are therefore necessary to redefine the role of the public sector and improve performance, because a high degree of decentralization of administrative power and responsibility is expected to result in increased efficiency of the public sector, improvement of local and regional government, and promotion of local and regional economic development. Đulabić & Koprić (2017) emphasize the importance of decentralization reform in the Republic of Croatia for the period 2001 to 2015, focusing on the impacts, effects and outcomes of decentralization for specific areas, including education, health, social care and firefighting.

4. Conclusion

Regional development is probably one of the few economic topics that has, in less than a century of intense research, become almost a key part of the development of national economies. In order to correct the differences that have arisen due to the pursuit of a free market economy, it is necessary, given the dynamics of national economies and their regions, to constantly update the tools and instruments of regional or cohesion policy. A single regional policy is also not a solution, since every region and its economic reality is unique within a national economy.

Furthermore, the national economy can be viewed as the sum of regional units, but the macroeconomic effects are not manifested equally in all regions. Thus, it can be concluded that in specific situations, national issues and problems are more pronounced in certain regions that are lagging behind. If a region's level of development is significantly lower

than the EU average, it is categorized as a "catching up region". Such regions are divided into two different types. The first are low-growth regions experiencing a permanent lack of growth, i.e. less developed or transition regions that did not converge with the EU average between 2000 and 2013. The second are low-income regions, which include those that remain well below the EU average by GDP per capita, i.e., all regions below 50% of the EU average in 2013. Low-growth regions, such as those in Southern Europe benefit most from improvements by the government, while low-income regions, such as those in Central and Eastern Europe, benefit most from the economic developments they make from investing in traditional growth drivers.

It is necessary to introduce different approaches adapted to the conditions of the region to which the policies apply. Key areas of investment, as cited by several authors, should include human capital and institutions. One of the templates for policy approach in lagging regions outlines four possible options (Figure 1). Based on that classification, the conclusion could be that all five counties of Eastern Croatia can be viewed in the context of sparsely populated areas. Four of them are peripherally located regions, and one can be viewed as a sparsely populated, centrally located region. The former lack agglomeration potential, so it is necessary to strengthen the creation of opportunities for individuals in the region and to develop institutions to support the quality of social services with a strong interest and focus on human capital accumulation. Vukovar-Srijem, Požega-Slavonia, Virovitica-Podravina and Brod-Posavina could be included in this category of counties. Osijek-Baranja County could fall into the category of sparsely populated, centrally located regions. Being close to major agglomerations, such regions should be linked to them, and investments should be targeted by sector, aiming to compensate for the limited potential of agglomerations through specialization. It is crucial to continually stimulate development at both individual and institutional levels.

Given the recorded situation and expected trends, a key question is how to devise adequate policies that target not only human capital development but also create an incentive for people to stay in these parts of the Republic of Croatia, which are experiencing big population outflows.

The new EU's programming period also brings about certain changes in the ways in which regional policy is implemented, recommending the implementation of region-centered cohesion policy in order to maximize regional potential. It is important to note that while the goal of convergence remains, it is defined in terms of social outcomes and individual opportunities.

In addition to the inadequacy of the same policy for different regions, several authors also cite the importance of government quality, especially in low-growth regions, while in low-income regions reducing fiscal contributions is still a major barrier to development. The current non-administrative division in the Republic of Croatia encompasses two NUTS 2 regions, although the government has already, by a proposal pending a final decision, raised the important issue of change to the four NUTS 2 regions, thus ensuring a more balanced future development. However, the question remains how to construct a specific and targeted regional policy that will drive change in Eastern Croatia, harness its potential, and not necessarily focus solely on harmonizing regional achievements.

Future research should certainly include positive examples of tackling similar problems within national economies with the extreme underdevelopment of certain regions, as well as recommendations on how to improve the functioning of institutions, which are ultimately one of the main obstacles to (regional) development. In general, the countries of the European Union faced with the issue of lagging regions rarely have adequately designed national regional policies.

The observed situation in Eastern Croatia and the five counties belonging to that area is characterized by low levels of development in both economic and social terms.

The paper is theoretically well supported with details on previous European and Eastern Croatian experiences in the field of regional development and in line with the aim to become a basis for interpreting the potential of Eastern Croatia and its associated counties. Nevertheless, the limitation is the lack of empirical analysis focused on exploring the current institutional framework in order to come up with new recommendations and possible solutions. Besides, future research should include analysis of ways and means of achieving a greater degree of decentralization.

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Katarina Marošević

Regije koje zaostaju u razvoju: primjer istočne Hrvatske

Sažetak

Nejednak stupanj regionalnog razvoj karakterizira Republiku Hrvatsku već dugi niz godina, uz iznimno zaostajanje područja istočne Hrvatske. Brojni su pokazatelji kojima se takvo stanje, a i očekivani trendovi mogu i potkrijepiti (npr. ostvareni BDP po stanovniku županija koje pripadaju području istočne Hrvatske, veliki odljev stanovnika pstočne Hrvatske, indeks razvijenosti Ministarstva regionalnog razvoja i fondova Europske unije i brojni drugi). Kako je stupanj ostvarenog razvoja županija istočne Hrvatske na zaista neusporedivoj razini u odnosu na nekoliko vodećih županija, a posebice Grad Zagreb, nužno je razmotriti prostor za moguća poboljšanja navedenog područja koja zaostaju u razvoju. U kontekstu Europske unije, razina razvijenosti pojedinih županija istočne Hrvatske na poražavajućoj je razini.

Ni druge zemlje članice Europske unije nisu ostvarile konvergenciju k potpunoj homogenosti, no u radu se izdvajaju primjeri kreiranih regionalnih politika kojima se pokušava smanjiti stupanj divergencije. Stupanj decentraliziranosti jedan je od važnih preduvjeta smanjenja postojećih regionalnih razlika kao i odgovarajuće primjene regionalnih politika.

Stoga je cilj ovoga rada teorijski obraditi dosadašnja istraživanja izabranih europskih iskustava regija koje zaostaju u razvoju, a koje su sve dijelom Europske unije, te evidentirati važnost međusobnog odnosa regija - nacionalno gospodarstvo. Kako se svih pet županija koje su u sastavu istočne Hrvatske zaista mogu okarakterizirati kao područja koja zapostaju u razvoju, cilj je shodno teorijskim saznanjima europskih iskustava usporediti situaciju i trendove regija i županija istočne Hrvatske, uzimajući pri tomu u obzir, ne samo ekonomski, nego i znatno širi koncept županija koje zaostaju u razvoju.

Ključne riječi: regionalni razvoj, regije koje zaostaju, Republika Hrvatska, nejednakosti u regionalnom razvoju, županije