ANALYSIS OF REGIONAL PROBLEMS BENEFITS THE DEVELOPMENT OF THE COUNTRY AS A WHOLE

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The aim of this article is to probe deeper into the problems we discussed as one of the key issues, or more precisely, as one of the sore points in the article *Some Principles of Strategic Planning*[1]. In order to better understand the reasons behind regional inequality we have to look into the peculiarities of the regions. The official statistics divides Estonian counties and towns into five regions. Proceeding from the data published by the Statistical Office of Estonia[2], I have tried to briefly characterize the most important social and economic features of these regions and, to some extent, also certain counties within these regions.

Regions give us a better Understanding of the Whole

Northern Estonia (Harju County, including Tallinn) covers nearly one tenth of the territory of Estonia and 38% of the permanent population. According to the 1998 data, over 60% of Estonia's added value was created in this region and the per capita GDP (82,400 kroons) was 1.6 times above the country's average. Nearly 80% of the added value came from trade, transport and other branches of the tertiary sector, including government and other such services. Most of the remaining added value was earned from manufacturing, where subcontracting played a major role. The export/import ratio was in favour of import at 0.6 (data of 1999). Such a ratio is fairly typical of economic centres, as incoming product flows are distributed from the centre through other channels. **Due to higher productivity and other factors, the economic and social development indicators are also considerably higher in this region** (data of 2000). The average net income per household member, approximately 2,800 kroons a month, was 1.3 times above the Estonian average. Per capita income of local governments accounted for 75% of the total income (against the Estonian average of 67%) and unemployment stood at 11.5% (average 13.7%). The share of this region in the investments made into Estonia in the period from 1995 to 1999 was over 50%.

Central Estonia (Järva, Lääne-Viru and Rapla Counties) covers slightly over two tenths of the territory of Estonia and 11% of the population. This region accounted for 7% of Estonia's added value, the per capita GDP (31,600 kroons) was 62% of the country's average. The tertiary sector provided nearly 50% of the added value; the share of industry amounted to 25%. **Compared to other regions, Central Estonia is characterized by the highest share (over 20%) of the primary sector (agriculture, forestry).** Export exceeded import. The net income, over 1,950 kroons a month per household member, amounted to 90% of the Estonian average. Per capita income of local governments was more than 40% below the total income. Unemployment rate was the lowest in Lääne-Viru County (13.6%) and the highest in Rapla County (16.4%). The share of total investments amounted to 12%, of which over a half went into Lääne-Viru County.

North-eastern Estonia (Ida-Viru County and Narva) covers nearly 8% of the territory of Estonia and 13% of the population; provided 8% of the added value. The per capita GDP (29,800 kroons) amounted to 59% of the Estonian average, which was the lowest among the regions, but not among the counties. **The main**

[1] *Some Principles of Strategic Planning* by Raimund Hagelberg. Eesti Pank Bulletin No 8, 2001, pp 8–11.
[2] http://www.stat.ee/statistics

peculiarity of this region is the large share of mining and energy sector. These two branches together with the manufacturing account for nearly half of the GDP produced in this region, although their production output has been constantly decreasing in the course of economic restructuring. Export exceeded import 1.5 times. The net income per household member (1,630 kroons a month) was 25% below Estonia's average, unemployment stood at 21.1%. Per capita income of local governments amounted to slightly over 50% of the total income. The share of this region in total investments amounted to 7%.

Western Estonia (Hiiu, Lääne, Pärnu and Saare Counties) covers 25% of the territory of Estonia and 12% of the population. The share of this region in Estonia's added value amounted to 9%, the per capita GDP (35,000 kroons) was 30% below the country's average. The tertiary sector accounted for over half of the added value. **Fishing and partially also agriculture is responsible for the relatively large share (over 15%) of the primary sector.** Fishing has undergone a considerable decline in recent years. Export exceeded import 1.5 times. The net income per household member (slightly over 1,900 kroons a month) was nearly 15% below the Estonian average. Per capita income of local governments amounted to 55% of the total income. The region attracted approximately 9% of the total investments made into Estonia.

Southern Estonia (Jõgeva, Põlva, Tartu, Valga, Viljandi and Võru Counties). **By territory this region is the largest in Estonia – 34%.** By population, it lags behind Northern Estonia only and with its 26% share of the total population exceeds other regions more than twice. The share of Southern Estonia in the production of added value was 16%, the per capita GDP (31,500 kroons or 62% of the Estonian average) was on the same level as in Central Estonia. **The large share of the tertiary sector (over 60%) mostly results from the modest development of the manufacturing sector.** The share of forestry has increased but agriculture, which used to have a dominant role, has suffered a considerable decline. **The relatively large share of the tertiary sector can also be attributed to the impact of the city of Tartu, a major centre of education, research, health care and trade.** The role of Tartu as a regional centre of Southern Estonia has caused import to exceed export. The net income per household member varies greatly for the same reasons. While Põlva and Jõgeva Counties have the lowest monthly income in Estonia (below 1,600 kroons), Tartu County ranks second in Estonia with 2,183 kroons. Similar differences can be seen in unemployment, which is the highest in Põlva County (23%) and one of the lowest in Tartu County (11.4%). Per capita income of local governments amounted to slightly below 50% of the total income. The region's share in total investments was 18%, with Tartu County attracting the most investments (7%) and Jõgeva County the least (1%).

Comparison and Setting of Goals Presupposes Considering Regional Peculiarities

The brief comparison of the regional situation indicates considerable differences between regions and counties. The differences are even greater by parishes. According to the expected results[3] of the application of the regional policy, Estonia's regional development should balance out by the year 2003 so that in no county would

- the average living standard (measured in the terms of an average income per household member) be below 75% of the Estonian average;
- unemployment (measured as unemployment rate according to the International Labour Organization methodology) exceed the Estonian average by more than 35%;
- tax income of local governments (measured in terms of personal income tax revenue into local budgets) be below 75% of the Estonian average (excluding Tallinn).

In 2000, the marginal value of the living standard criterion was unmet in Põlva, Jõgeva and Valga Counties, and was on the borderline in Ida-Viru County. Unemployment was above the critical level in Põlva and Ida-Viru Counties, and the local budget income target had not been reached in Põlva, Jõgeva and Valga Counties and by a narrow margin also in Võru County.

Understandably, the development level cannot be the same everywhere. This is impossible due to natural conditions, geographical location, basic infrastructure that has developed in the course of time, economic ties, and various other factors. However, economic environment and opportunities resulting from it are considerably more varied. Under a traditional approach, the possibilities of economic growth are linked to investments and the existence of skilled labour. On the social level, creation of new jobs is also important. In transition economies, economic restructuring works against job creation, the impact of increased productivity

[3] http://www.stat.vil.ee/pks/strati/tootus.htm

resulting from the development of technology and organization is also greater than in developed economies. On the regional level, this impact has so far been the biggest in North-eastern Estonia and previously agriculture-oriented regions.

The success of the development, however, is based on the region's supply and the demand for the production and services it offers. This should be in the focus of attention when making investments, including small investments, organizing retraining, developing infrastructure, etc. An important incentive and model in developing businesses is the success of the business plans, while failure has the opposite effect. In order to avoid failure, the regions would benefit considerably from a system of qualified consultants, which presupposes a similar approach on the state level.

The accordance of demand and supply is very important. Although this becomes clear only on the market, the existence of a complete picture projecting the general development, or at least a respective vision is useful in planning one's activity. This and understanding regional peculiarities also helps to work out specific solutions best suited for concrete regions or emergency situations. The creation of such opportunities is the state's task. Although this may not be the best example in the given situation, but such problems as the change in employment in mono-functional Tapa in connection with the privatization of the railroad, should not crop up overnight.

Production should not be Overlooked among other Solutions

In 2000, goods accounted for one third and services for two thirds of Estonia's GDP. The share of goods was four fifths in import; services accounted for one fifth. In export, goods accounted for two thirds and services for one third. These ratios are characteristic of not just the year 2000. A large part of imported goods is meant for export in various forms. **On the regional level, export mostly takes the form of goods, except for Tallinn, Pärnu, Tartu and some other places that enjoy an advantage in supplying services for export.** Although the situation can change somewhat through tourism and other undertakings, most regions can increase their share in export only by increasing the export of goods. This is also the most likely solution to the problem of unemployment. An equal result would be achieved by starting manufacturing products for the local market to replace goods that are currently imported. **This view is based on the analysis of the population figures and structure by regions.** Striving for foreign markets is inevitable for many reasons. A comparative analysis of the production and marketing process and export statistics shows that the counties with the lowest share of export (Jõgeva, Põlva, etc) lag behind others also by their social and economic indicators. This is an axiom that needs no proof but sets additional conditions to regional restructuring.

Table 1. Key positions of supply (% of GDP)

	1993	2000
PRIMARY SECTOR	11	5
SECONDARY SECTOR	33	29
o/w manufacturing	17	17
o/w: manufacture of food products, beverages and tobacco	46	20
manufacture of wood and furniture	10	18
manufacture of fabricated metal products, machinery and equipment	9	10
TERTIARY SECTOR	56	66
o/w wholesale and retail trade	16	15
transport, storage and communication	11	15
real estate and business services	7	12
administration services:	15.5	17.0
o/w administration, national defence, social security	3.2	4.3
education	5.2	4.7
health care, social work	2.3	3.5
other	4.8	4.5

The data do not allow the regional analysis of demand and supply. In order to compensate for this, let us look at the dynamics of the changes in supply (see Table 1). Proceeding form this and relying on the data provided above, we can conclude that **the decline of the share of the primary sector, and the seconding manufacture of food products, has had the strongest impact on the previously agriculture-oriented regions**. Nearly half of Estonia's population lives in those regions now. This critical evaluation cannot be softened by the statistics that indicate the reduction of the rural population and the number of people directly engaged in the primary sector. These figures do not reveal the **relations between the different fields of activity**. The statistics indicate that the reduction of the number of workers in the primary sector has been accompanied by a similar reduction in the secondary sector. The same can be seen from the changes in the share of the primary sector and manufacture of food products in the GDP.

Thus, the general trend of transition towards developed market economy – the reduction of the share of the primary sector and the growth of the share of the tertiary sector – requires a particularly differentiated approach on the regional level, as the situation varies greatly in different regions. In 2000, for instance, 25% of the employed in Järva County were engaged in the primary sector, 30% in the secondary sector and 45% in the tertiary sector; the respective figures for Ida-Viru County were 3; 50 and 47%; for Harju County and Tallinn – 2; 30 and 68%. Another similar example can be presented: in 1998 approximately 80% of industrial production, manufactured by businesses with 20 or more workers, came from Northern Estonia, Ida-Viru, Lääne-Viru and Tartu Counties. Small businesses are often under pressure due to the increasingly rigid requirements and the increasing domination of major trade chains that have hardly any links to local small-scale producers. There is more than enough factual data to substantiate this line of argument even further.

Some General Remarks in Conclusion

Firstly. Despite the smallness of its territory and population, Estonia falls regionally, and county-wise in particular, into structural entities with considerable differences. Besides natural and geographical conditions, historically developed international trade routes and infrastructure attached to them have played an important role here. **Changes carried out in the interests of the Soviet Empire have had their restraining impact.** These changes coincided with the time of major changes and rapid developments in the developed world, which we unfortunately missed. Catching up is both laborious and inevitable.

Secondly. Due to its smallness, Estonia has historically developed one economic centre – Tallinn with its ever-widening hinterland. In the present conditions concentration is relatively high, although not in the international context. This process has two main reasons. One is historical and results from Tallinn's good position for communicating with the outside world. **However, the special interests of the Soviet period, which besides Tallinn were directed to North-eastern Estonia, also contributed to this.** The development of other regions was receded into the background and, to some extent, remained even internationally closed. Most of all this hindered the **broader development** of the so-called rural areas. In these areas great emphasis was put on livestock production from imported grain. The aim was to compensate for the weakness of agriculture in the northern regions of the Soviet Union, which had nearly collapsed in the conditions of collectivization.

Under the Soviet rule, I have spent years analysing agriculture and do not underestimate Estonia's agricultural achievements of the period, particularly towards the end. However, there is no cause for nostalgia. One of the weightiest elements of this success was the relatively cheap imported fodder, its effective utilization and production culture. Relying on the observations of the past and present I dare to say that **our regional potential, including competitiveness of our agriculture, is considerably higher than used today**.

Thirdly. The whole of Estonia has to be kept in mind while planning further regional activity, and development projects in particular. **However, the regional interests and concerns should not be overlooked when making decisions that affect the entire country.** In the market economy neither side will materialize through issuing instructions. Businessmen, particularly investors, are sensitive to information, be it on the actual situation or potential outlook for the future. More analysis should be devoted to local possibilities. The frequently repeated basic truth in the World Economic Forum – *think globally, act locally* – deserves attention also on the regional level.