Changing Role of Industry in the Economy in the V4 Countries - a Regional Approach

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Summary
The theme of the article is the changing role of industry in the economy of the countries of the Visegrad Group, further referred to as V4. The goal of the research is to delimit the regularities in terms of changes of the importance of industrial activity in the economy of the region in the conditions of moving from the industrial to post-industrial to information phase of the development and building of a knowledge-based economy. The analysis is based on the NUTS-2 regions of the V4 countries against the general changes in the European Union states, based on selected measurements of industrial potential, i.e. employment and gross value added of industry, as well as indicators of spatial concentration, structure and dynamics in industrial activity, with a special focus on those related to the knowledge-based economy, such as employment in technology and knowledge-intensive sectors. The analysis is dynamic and refers to the years 2000-2012. The research is based on the following methods: comparative analysis, explanation, quantitative analysis and cartographic analysis, all with a regional approach.

The analysis indicates the diminishing role of industry in the V4 countries compared to the other EU states. However, the participation of employment in industry is relatively high in comparison with the rest of the EU states. Concentration of industry occurs in the earlier developed areas of concentration, i.e. industrial districts. As a result, there is a need for a new interpretation of the regional policy in the V4 states, where more attention should be paid to the role of industry in shaping the economic structure.

Keywords: industry, regional economy, the Visegrad Group, economic transformation

Journal of Economic Literature (JEL) code: E24, E25, J21, L60, R10, R11, R12

Introduction
Changes in the socio-economic system in the countries of Central and Eastern Europe, associated with the introduction of a market economy based on a competition mechanism, significantly affect the functioning of companies and different sectors of the economy. This also applies to industrial activities, which were growing in completely different conditions in the centrally controlled economy. As a result, a specific enterprise developed in which economic efficiency was not the main goal. The main aim of its operation was to serve the needs of the national economy and society, through the implementation of tasks planned and defined at the central level, not the company itself (Koźmiński 1998). In addition, these companies were usually characterised by excessive employment, large volume of production, mostly of not very modem products, unadjusted to the existing demand, outdated machinery equipment and the organisational structure adapted to the prescriptive-distributive system (Błaszkiewicz, 1994; Rachwał 2002; Rachwał 2006a). As a result, at the beginning of the economic transformation industrial enterprises found themselves in a difficult situation, which required them to undertake a restructuring process in order to increase their competitiveness on the domestic and international markets. Raising the competitiveness of these enterprises was carried out through means such as changes in the ownership structure, organisation and management structures, rationalisation of employment levels, adjusting the product portfolio to the expectations of buyers and the consequent modernisation of production assets, as well as the transformation of the sources of supply and, consequently, the sales structure (Rachwał 2002; Rachwał 2006a; Rachwał 2006b).

Today, in the era of the knowledge-based economy, improving competitiveness manifests itself primarily in the implementation of organisational, technological and product innovation: increased capital expenditures on fixed assets and innovative activities as well as intensive research and development (Kilar 2008). These changes reflect the participation of national industrial enterprises in the global economic processes and integration of industries of the countries of Central and Eastern Europe with the global industry, particularly through organisational, capital, technological, information and market links (Kilar 2010; Rachwał 2006a). They lead to the liquidation of the structural gap that occurred in connection with the implementation of fundamentally
different models of industrialisation in the countries of Central and Eastern Europe and the countries of Western Europe, where the functioning of the national economy has been based on market rules. Corporate restructuring processes also affect the change in the role of industry in the national and regional economy.

**Objectives, Methods and Sources of Statistical Data**

In the light of the above premises, the theme of the article is the changing role of industry in the economy of the Visegrad Group countries referred to as the V4. The aim of the study is to determine the regularity in terms of changes in the importance of industrial activities in the regional economy, in the conditions of transition from the industrial to post-industrial to information phase of the development and building a knowledge-based economy. The analysis is conducted in the system of the NUTS-2 regions of the V4 countries compared to the general trend of change in the European Union, based on the selected measures of industrial capacity, i.e. employment and gross value added (GAV) of industry, as well as indicators of spatial concentration, structure and dynamics relating to the industrial activities, with particular emphasis on those related to the knowledge-based economy, such as employment in technology- and knowledge-intensive sectors.

Achieving and maintaining a competitive position on the domestic and foreign markets requires considering - in the strategies of the industrial enterprises - the growing role of education and science, research and development and innovation, that is, everything that is the key to achieving a competitive advantage in the knowledge-based economy. Particular attention has been paid to the spatial variability of the phenomena; for this purpose the cartographic method of presentation of the phenomena was used. The analysis is conducted in a dynamic way and covers the period 2000-2012. In these years there was a change in the classification of activities from NACE 1.1 to NACE 2.0. It was considered, however, that due to the extent of aggregation this does not affect significantly the conclusions of the analysis, which was limited to an indication of the important regularity of the analysed phenomenon.

In total, 35 NUTS-2 regions from the Visegrad Group countries were analysed. They include 16 Polish, 8 Czech, 7 Hungarian and 4 Slovak regions. Due to the restrictions on access to data the research period for certain indicators may be shorter. The difficulties in accessing the data on the functioning of the industry, mainly due to the principles of statistical confidentiality and trade secrets of companies, were widely referred to in previous works by Rachwal (2008, 2010a). The study used data from Eurostat and the Central Statistical Office of Poland (GUS).

**Research Issues in the Light of the Literature**

The undertaken research problems were the subject of interest of various earlier authors. The themes undertaken in the 1990s mainly referred to the objectives and scope of the economic transition in the countries of Central and Eastern Europe (Bożyż 1999; Balcerowicz 1995; Kolodko 2000; Kornai 1997; Łukawer 1994a, b; Parysek 1998; Rosati 1998) and the privatisation of state enterprises, among which a prominent place was occupied by industrial enterprises (Balcerowski 2002; Karpifńska-Mizielńska & Smuga 1995; Misztal 1993, 2000, 2003). A number of researchers undertook the problem of spatial adaptation (Stryjakiewicz 1999), restructuring (Jakóbik 1993) and structural changes of the industry in Poland and other countries of Central and Eastern Europe (incl. Abraham & Ese 1999; Domański 2003, 2006; Karpifski 2008; Lux 2010; Macias 2006; Paszkowski 1996; Rachwal 2009; Rochnowski 2001; Vishnevsky et al. 2011). A special place in these considerations is occupied by the issue of restructuring of selected industries (e.g. Czapliński 2011; Lizak 2009; Marszal,1993; Pakuła 1992; Rydz & Szymańska 2002; Tkocz 2006; Wiedemann 2002), and various industrial enterprises (Pelka 1994; Rachwal 2002, 2006a, 2006b, 2007; Sudol & Karasewski 1996). Under the conditions of the construction of the knowledge-based economy, researchers undertook the problem of the role of industry in the new conditions of economic development (Rachwal 2013; Ziolo 2009), innovation and industrial competitiveness of Poland and other European countries (Doloreux & Parto 2005; Gierańczyk 2003, 2009, 2010; Gierańczyk & Rachwal 2012; Piras et al. 2012; Rachwal & Boguś 2012; Świadek 2006), as well as changes in the branch structure of the industry of Poland (Rachwal 2010b, 2011a) and the impact of the economic crisis on its functioning (Rachwal 2011b).

The issue of spatial diversity of industry in the regions of Poland and other European countries has been the subject of interest of, e.g., López-Bazo et al. (1999), Mikołajewicz (1995), Mrozińska (2013), Oort & Bosma (2013) and Rachwal et al. (2008a, 2008b, 2009), as well as other authors, who studied the issue of the transformation of industry in different regions (e.g. Maliszewicz & Ziolo 1994; Pakuła 2003; Rydz & Jawezwicz 2001; Tkocz 2001). In these works, however, there is no comparison of industrial regions in the V4 countries in recent years of the economic crisis.

We need to pay attention to the special place occupied by competitiveness and innovativeness of the V4 regional economy in the years 2001 to 2008, as presented in the work of Golejewska (2013). The results show that capital regions tend to develop faster and that there is a significant diversity of regional competitiveness and innovativeness across the V4 countries. The main
conclusion from her cluster analysis is that the development of the regions in the Visegrad Group countries depends on their “nationality”. The author also pointed to the correlation between innovation indicators (R&D expenditures and patent applications to the EPO) and the growth of the regional GDP per capita. She points out the fact that one of the factors affecting the innovativeness of regions is the structure of the industry, although she does not devote much space to the analysis of the role of industrial activity in the process.

**Changing Role of Industry in the Economy of the V4 Countries Compared to Other EU States**

According to the theory of the three sectors, whose authorship is attributed to A. Fisher, C. Clark and J. Fourastić (Czapliński et al. 2013, p. 176), industry, after a growth phase, loses its share in the structure of employment in favour of services. Today this regularity is observed in virtually all countries in the post-industrial stage of development. Also in the analysed period 2000-2012 in the V4 countries, as in other EU states, there was a decline in the share of industry in employment (see Fig. 1).

It should be noted that the decrease was much smaller in the V4 countries (in the Czech Republic by 1.1 pp, in Poland by 1.3 pp, in Slovakia by 2.1 pp and in Hungary by 3.3 pp) than in the Western EU countries, although the shares of industry in employment in Central and Eastern Europe are far greater, amounting in 2012 from 18.1% in Lithuania to 29.4% in the Czech Republic. The largest drops - by more than 6 pp - were recorded in Malta, the UK, Sweden and Luxembourg.

Somewhat different is the variation in the case of the share of industry in the gross value added. Firstly, it should be noted that this participation is generally higher than in the case of employment, especially in Western countries and Scandinavia, which follows from the structure of the industry in these countries. The dominant role in this structure is not played by the traditional labour-intensive industries, but by more modern, high-value-added industries. Secondly, it should be noted that drops in the share of industry in the countries of Central and Eastern Europe are generally very small, and in some countries (e.g. Poland, Romania, Bulgaria and Estonia) the share of industry in GVA is up by 4.2 pp. In this situation it is difficult to speak of a universal deindustrialisation of Europe, but rather of only the confirmation of the thesis of the decline in the importance of industry in the mobilisation of labour resources and consistent reindustrialisation processes in the countries of Central and Eastern Europe in the context of economic transformation.

**Industry Concentration in Regions of V4 Countries**

The concentration of industrial activity, measured by the number of employees in industry per 1000 km², shows a high spatial diversity in the V4 countries (Fig. 2).
The V4 regions with a high industrial concentration include the capitals of all countries (Bratislava, Budapest, Prague and Warsaw) as well as the region of Moravian Silesia (Moravskoslezsko) in the Czech Republic and the regions of the Śląskie, Małopolskie and Łódzkie Voivodeships in Poland. In addition, the regions of the Czech Republic have much higher concentration indexes than other regions of Hungary, central Slovakia and north-western and north-eastern Poland. This spatial concentration refers to the traditionally shaped industrial districts in these countries. In the analysed period of 2000-2012, this index, however, underwent significant changes (Fig. 3).

High increases in the industry index’s value were recorded in two north-western regions of the Czech Republic, Západné Slovensko in Slovakia and in four Polish regions: Śląskie, Dolnośląskie, Pomorskie and Świętokrzyskie Voivodeships. Noteworthy is the decrease in concentration in the capital regions of Prague, Bratislava and Budapest and other regions of Hungary. It should be noted, however, that this index was based on the number of employees in industry, and in the period considered Hungary witnessed the emergence of new and development of operating industrial enterprises that are far more technologically advanced (mainly in the automotive and consumer electronics), and also less labour intensive, which, as noted by Gierańczyk & Rachwał (2012), is probably one of the causes of dynamic growth in the participation of high-tech products in the export of Hungary in the first decade of the twentieth century. Of great importance among such changes of the spatial concentration are the investments in automotive companies in the regions of the V4 countries, belonging now among the world centres of production of cars and their components (Wójtowicz & Rachwał 2014).

**Participation of Industry in Employment and GVA in the Regions of the V4 Countries**

In order to capture the role of industry in the regional economy of the V4 countries indicators of industry participation in employment and GVA were used. They exhibit a large spatial diversity. The rate of participation of industry in employment in 2012 ranged from 10.6% in the region of Prague to 35.2% in the Moravian Silesia in the Czech Republic (Fig. 4).

A high share of industry in employment, over 31%, is also seen in other regions of the Czech Republic, Západné Slovensko in Slovakia and the western regions of Hungary. The lowest rates, below 22%, are characteristic for the capital regions (besides the already mentioned Prague, also Bratislava, Budapest and Warsaw - the Mazowieckie Voivodeship) as well as the eastern (especially the Lubelskie and Podlaskie Voivodeships) and north-western regions of Poland. Although in the analysed period (2000-2012) in most regions of the V4 a drop was recorded in the share of industry in employment, even by almost 8 pp in the Śląskie Voivodeship (Fig. 5), it is worth noting that in 15 of the 35 regions an increase in employment in this sector was recorded. Assuming the base year as 100, the calculated index of dynamics ranged from 85.5 to 115.4. As a result, in some regions, mainly of eastern, central and south-western Poland, as well as the northern regions of the Czech Republic and in Západné Slovensko in Slovakia, a slight increase in the share of employment in industry was noted. In all the regions of Hungary there was a decline in the share of the industry in employment.
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The situation is somewhat different in the case of gross value added in the industry. The area with a large proportion, over 36%, includes the northern regions of the Czech Republic as well as Western Slovakia and Hungary (Fig. 6). The low shares are recorded in the capital regions, where service activities normally dominate, and in the southern and eastern regions of Hungary, eastern Slovakia and eastern Poland.

In the period 2000-2010 in all the regions, growth was recorded in gross value added of industry at current prices, up to 3-fold. Large differences in the dynamics mean that the increase in the share of industry in GVA also applied to the regions where the share was low at the beginning of the study period (Fig. 7). Increases were recorded in 20 of 35 regions, and so twice as many as than the increases in the share of industry in employment. The highest increases in this share were recorded in the south-western provinces of Poland (including the Dolnośląskie Voivodeship, up by 9.4 pp), the Warmińsko-Mazurskie Voivodeship (PL) and the region of Észak-Alföld (HU).

An expression of changes in industry associated with the construction of the knowledge-based economy is the employment in technology- and knowledge-intensive manufacturing. In the years 2004-2012 (for which the data is available), there was a significant increase in employment in this sector in the voivodeships of central and south Poland and the region Stredni Cechy (CZ). The drop in employment mainly referred to the regions of Hungary and Slovakia, as well as certain voivodeships of Poland (Fig. 8).

Competitiveness of industry is also affected by the level of capital investment. The analysis of the gross fixed capital formation indicates that in the years 2000-2012 the largest increases in expenditures were recorded in some regions of Poland and the Czech Republic (including the region of Prague) and in the Bratislava region (Fig. 9). Low increases were observed in the regions of Hungary, two regions of the Czech Republic and two largest voivodeships of Poland, the Mazowieckie and Wielkopolskie Voivodeships.

**Dynamics of the Gross Formation Capital and HTEC¹ Employment in the V4 Regions**

¹ HTEC: high-tech industry and knowledge-intensive manufacturing
Conclusions and Recommendations

The analysis points to the declining role of industry in the total employment in the V4 countries against other European countries, although the rate of decline of the participation of industry is much lower than in the countries of Western Europe. Still, the share of industry in employment is relatively high compared to other EU countries. In contrast, the shares of industry in gross value added are higher than in the case of employment, because of the increased importance of modern industries in the structure of GVA, generating high added value tax. Importantly, the regions with a high concentration of industry still include the capital regions of all the Visegrad countries and regions of the Moravian Silesia (Moravskoslezska) in the Czech Republic as well as the Śląskie, Małopolskie and Łódzkie Voivodeships in Poland. Concentration of industry, therefore, refers to the pre-shaped areas of concentration (industrial districts).

It seems, therefore, that the traditional industrialised regions occurring in the area of the Visegrad countries, being subject to intense changes as a result of the increasing globalisation- in terms of shaping the knowledge-based economy, should seek to strengthen the role of modern industries. Both employment and gross value added indicate that in the study area there are regions which have significant industrial potential, which is often the driving force behind their socio-economic development as a result of the occurrence of the multiplier effect. Conclusions from the analysis indicate the need for continued research on the changes of the regional economy in these countries because their development path differs from that of the regions of Western Europe. The results of the research can be used in the formulation of goals and objectives of regional policy in the V4 countries, in which a significant place should be taken by the goals related to industrial activities, the importance of which is still large in the economic structure.

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