III. Gateway Cities in the Process of Regional Integration in Central and Eastern Europe: The Case of Prague

Dušan Drbohlav and Ludek Sýkora
Charles University, Faculty of Science, Department of Social Geography and Regional Development, Prague

A. Introduction

The concept of gateway city refers to large urban centres located at the periphery of developed economic areas through which pass most contacts in the form of flows of goods, information, labour and capital between their surrounding regions (which can be as large as states) and the external world. The role of gateway city can bring a growing prosperity to the city itself as well as to its hinterland. However, the development stimulated by gateway functions can also give rise to social and environmental costs as the result of the radical overhaul of local economic and social structures. Furthermore, gateway cities are also exposed to a growing pressure from migration. The concept of gateway can be particularly useful for describing and analysing the integration of former communist states (centrally planned economies) into Western political and economic systems. It can highlight the role of major and capital cities that provide the basic infrastructure (knowledge, labour and material base) for the integration.

In this paper, the integration is seen as a spontaneous market-led process of growing interrelations between the Western world (often represented by firms and capital) and Central and Eastern Europe (usually represented by supply of labour and a physical base for production) which takes place against a background of managed political and economic integration (removing trade barriers, changes in the legal system that make it compatible with EU norms, etc.). Integration is usually understood as built around Western economic actors who intervene in localities and regions in CEECs. Furthermore, integration is believed to be achieved primarily through economic activities, with cultural integration having a secondary role. The number of foreign tourists, for instance, is therefore considered to be less important for the development of gateway functions than an increase in the number of foreign companies.

As part of the transformation process, CEECs create the necessary economic and legal environment for integration. Individual countries then attempt to provide favourable conditions that will attract foreign (and in particular multinational) companies and foreign direct investments to the area. The gateway cities offer good local conditions suitable for establishing the control functions of international companies. Discussions focus on assessing the comparative advantages of individual gateway cities. Consequently, the competition among Central European capitals for foreign firms and investments is of prime importance for studies of future trends in European urban networks and regional systems (Dostál and Hampl, 1992; Musil, 1993; Enyedi, 1994).

Gateway functions operate in two main ways. First, gateway cities are locations through which contacts from developed areas (Western Europe) are mediated towards peripheral areas (Central and Eastern Europe). Second, gateway cities are also places that attract labour migration from less developed regions because they offer better job and income opportunities, benefiting from the spillover effects of internationalisation as they become more westernised.

The analysis of gateway cities should focus on three basic issues. First, it must identify which conditions are important for cities to play the role of gateway and assess whether these conditions are fulfilled in particular cities. Second, the actual performance of gateway functions should be analysed, for example, whether the city develops into a location with a high concentration of foreign firms and institutions or whether the local labour market is characterised by a large share of foreign workers and immigrants. Third, it should assess the impact of gateway functions on the changes of the city's position within the wider urban network and on its internal restructuring.

B. Conditions for establishing gateway city functions

A variety of conditions influence the establishment, development and performance of gateway functions. There are external and internal factors. The most important external factors are: 1) the size and geographical setting of city and its region, especially in relation to Western countries; 2) the size of potential market, i.e., the region that depends on the gateway city; 3) political and economic stability, macroeconomic performance and the development of pro-market legal environment on the state level; 4) the outcomes of transformation at microeconomic level, especially in terms of how easy it is to acquire the physical base for production and services (achieved through privatisation policies); 5) the availability of production inputs at the national level, above all in terms of cheap and skilled labour; 6) the presence of specific government policies that attempt to attract foreign investment and foreign firms.

The internal factors include: 1) the provision of office, retail and industrial accommodation and land for future commercial property developments; 2) telecommunication infrastructure; 3) transport infrastructure (internal city transportation and connections to the outside world by air, road, and express railways); 4) the availability of a highly educated labour force; 5) other historical, cultural and spiritual factors (for example the unique setting of Prague's historic centre); 6) specific city policies that attract foreign actors to locate in the city.

1. Geographical setting of the city and its regional influence

The chances of individual cities as well as countries within Central and Eastern Europe are to a certain extent influenced by their geographical proximity to developed countries of Western Europe. Even in the age of globalisation the constraint of physical space on the movement of people and goods has certain impacts. The physical proximity must be weighted to take account of the European settlement pattern and transport links between individual centres. Furthermore, the westernmost countries of the former communist bloc historically had close cultural and economic ties with countries that now belong among the most advanced in the contemporary world. These historical and cultural ties have had a substantial impact on people's behaviour as well as on legal norms.

Since 1989, a new Central European zone has developed, comprising the most advanced countries: Poland, the Czech Republic, Slovakia and Hungary. The zone both links and separates the "West" and the "East". On the one hand it is a region from which Western companies are starting their operations in Eastern Europe, while on the other hand, it is a "buffer zone" in terms of absorbing immigrants from the East who are heading for Western Europe. The specific function of this zone affects especially large cities located within this geographical area and, in particular, their performance as gateway cities.

Prague is the westernmost city of all the Central and Eastern European capitals, and the Czech Republic is the most westerly of the transition countries. The impact of physical proximity is further strengthened by relatively easy access through the existing transport infrastructure. The geographical location is one of the crucial factors influencing the development of Prague, its integration into the West European settlement network and its role of gateway city.

Cities act as gateways to their hinterlands. Usually, national capitals have a key role as the main point where foreign actors enter the country. The attractiveness of individual gateway cities may differ depending on the size of market which is at stake. For example, Poland has a potentially larger market than the Czech Republic. Similarly, in quantitative terms, Russia has a greater potential than Romania. Prague is the centre of a relatively small market with a population of 10 million. Nevertheless, although the market is relatively small, it is, thanks to its macroeconomic performance (see next section), one of the most attractive and accessible markets in Central and Eastern Europe for Western actors.

Prague is the largest city in the Czech Republic and, consequently, is the primary gateway for foreign actors entering the country. Its present position within the national urban system is the result of historical development. Prague was a primary seat of the Czech Kingdom in the early Middle Ages. In the 19th century, the city became an important industrial and cultural centre within the Austro-Hungarian empire. In the inter-war period Prague acted as the capital of the newly created Czechoslovakia and its important position was maintained under the communist regime. Prague's population in 1994 was 1.213 million, accounting for almost 12 percent of the total population. The city provided almost 15 percent of all employment in 1994 (Okresy, 1994). Importantly, Prague's commuter region covers an area with a population of between 1.5 and 1.75 million. Furthermore, 1.6 million people, including permanent residents, commuters, tourists and other groups, are daily concentrated on Prague's territory (Cermák, et al., 1995).

Table 1 documents various characteristics showing the dominant role of Prague in economic, social and demographic terms within the national settlement system. Furthermore, the central position of the city within the country reduces the potential role of other regional urban centres that are directly subordinated to Prague. Consequently, Prague completely dominates Bohemia and Moravia (Barlow, et al., 1994), as is obvious from the fact that the second largest city, Brno, is only one third the size of Prague.

In 1991, 20 percent of Prague's active population was engaged in industry, 10 percent in construction, 14 percent in wholesale, retail and other service and production activities, 2 percent in agriculture and forestry, and 53.5 percent in other economic branches. Since then, Prague – like the whole republic – has been restructuring its economic base by reducing employment in industry and increasing the size of the service sector (Kopacka, 1994). In December 1993, Prague accounted for almost 8 percent of the country's employment in industry, 18 percent in construction, 26 percent in hotels and restaurants and 32 percent in financial services (Okresy, 1995). Prague has also strengthened its role as the control and organisational centre of economic and service industries. The headquarters of one third of the 200 largest Czech firms/companies are located in the city, with 84 percent of the basic capital of banks, 55 percent of progressive production services and 29 percent of the revenues of small businesses (Blazek, 1996).

A question that is often raised is "Is there a single city (or a few centres) that might act as the gateway for all of Central and Eastern Europe?" Vienna, for example, would aspire to play such a role. In our opinion, the influence and performance of national capitals is more important, and the development of a new hierarchy is unlikely now that subordination to Moscow has been abolished.

2. Political and economic transformations and contemporary economic development

The role of gateway cities has to be analysed in the context of the political and economic development of the states in which they are located. Political and economic stability and a legal framework favourable to private and above all internationally based enterprise are the most important contextual factors that lie behind the attractiveness of particular gateway cities. The political and economic stability, good macroeconomic performance (Table 2) and successful privatisation programmes have made Prague and the Czech Republic among the most attractive locations for foreign companies and investments. The importance of Prague as a gateway city lies not so much in its regional impact, but it is one of the first cities actually to exhibit the role of gateway. Prague is not among the largest, but it is among the first cities approached by foreign actors. In this case the timing, not the size of market, is crucial.

The transition in the Czech Republic can be divided into two basic phases. The first one was dominated by government-directed transformation policies. It included liberalisation of foreign trade, liberalisation of internal markets through deregulation of prices and a number of privatisation programmes. Successfully implemented transformation policies (thanks to selection, timing and perseverance) established the basic parameters of a market environment that induced the spontaneous development of private sector activities. The second phase of economic transition is characterised by spontaneous processes of restructuring within society and particularly in the economy. Importantly, private sector production increased substantially, accounting for about 70 percent of GDP in 1995. Furthermore, the general economic performance of the Czech Republic is characterised by relatively low inflation (compared with other CEECs), low indebtedness, economic growth of almost 5 percent per annum, a steady and fully convertible currency, low rate of unemployment, increases in real incomes (albeit still not exceeding those in 1989) and remarkable social stability of the whole society.

The Czech Republic offers good opportunities for multinational companies to expand production in the country. The most important factors are a supply of existing firms (with their infrastructure) through privatisation policies, possibilities to extend or build new production capacities, and the availability of a skilled and peaceful labour force. With the expectations of economic growth on the national level and continuously increasing personal wealth and, consequently, individual consumption, the Czech Republic presents a potentially good market for the products of multinational companies.

3. Communications and transport infrastructure

The telecommunications and transport infrastructure creates the basic material preconditions for the integration process. Only those cities at the periphery of economically developed core countries that are properly connected to the advanced world can play the role of gateway cities. The development of the communications network is one of the most important factors influencing the decision of major international economic actors to locate their activities in peripheral regions. Consequently, countries and cities in Central and Eastern Europe attempt to strengthen their comparative advantages through the development of telecommunications and transport infrastructure at both state and urban levels.

The pattern of global telephone calls is one of the key indicators of territorial development. "An analysis of the spatial structure of the system should provide a plethora of information that will allow at least a tentative assessment of which places are advantaged or disadvantaged, who dominates the system and what places are best connected to each other" (Demko, Heyman and Huke, 1996). The development of telecommunications strongly influences the growth of the economy. For example, there is a correlation between the level of telephone main lines per 100 inhabitants (teledensity) and the level of GDP per capita (wealth). Apparently, telephone contacts also have an impact on the economic development of given regions, cities and towns within a country. The growth of intensity of telephone calls is dynamic[1] and, of course, to some extent reflects the globalisation of the world economy. Similarly, there is also a correlation between the level of international traffic and wealth (ICU, 1994). After the revolutions at the turn of the 1980s and 1990s, there has been an explosive growth in telecommunication flows in Central and Eastern Europe. Since 1989, outgoing flows have grown by 30 percent annually, 14 percent higher than the world's average (ICU, 1994). Financial injections into the system, often with the assistance of foreign partners, were used to improve international telecommunication networks, especially to serve the growing needs of rapidly developing private businesses.

In the Czech Republic, SPT Telecom is responsible for telecommunication services. A substantial share of SPT (27 percent) has recently been sold to a foreign partner TelSource, which is owned jointly by PTT Netherlands (51 percent) and SwissTel (49 percent). SPT has implemented an investment programme aimed at increasing the number of telephone lines and installing digital technology (*Global Telecoms Yearbook*, 1995). The existing analogue network will be fully digitised by 2002. Line penetration should rise to meet demand before the end of this century. Nearly 27 percent of telephones in the Czech Republic were to be found in Prague in 1995. The number of telephones has been steadily increasing since 1990 (Table 3). The speed of installing new telephones has been slower in Prague than in other regions. This can be explained by the large number of telephones already in the city before 1989, difficulties with major construction repairs in an urban environment and the new competition from mobile phones.

As regards physical communications with the rest of the world, *road traffic* is the most important means of transport. The crucial role is played by express highways and roads connected to the European network, accounting altogether for 2,655 km. In the Czech Republic, the network of motorways is not as developed as in Western Europe. The first motorway was opened as late as 1980. The present express highway network amounts to 391 km. The central crossroads of the country's motorway network is unambiguously Prague. The main strategic objective of government transport policy is to build or finish the construction of seven express highways[2].

According to this plan, 580 km of express highways will be in use in 2000, 850 km in 2005 and 1,050 km in 2007. By that time, the Republic will be connected via express highways with neighbouring countries at 7 points (Germany 2, Austria 1, Slovakia 2 and Poland 2). The national highway network will be linked into two European trans-

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[1] "In 1960 there were 150 million international telephone lines - today more than 600 million exist and this number is expanding daily" (Demko, Heyman, Huke, 1996).

[2] 1) D1 Prague-Brno-Vyškov-Kromeríz-Zlín-Slovakian border. 2) D2 Brno-Slovakian border. 3) D3 Prague-Ceské Budejovice-Austrian border. 4) D5 Prague-Plzen-German border. 5) D8 Prague-Ústí nad Labem-German border. 6) D11 Prague-Hradec Králové-Polish border. 7) D47 Kromeríz-Ostrava-Polish border.

port corridors of the highest importance (Berlin/Nuremberg-Prague-Bratislava-Budapest-Istanbul and Gdansk-Poznan/Lódz-Katowice-Zilina/Ostrava-Brno).

The priority has been given to construction of the D5 motorway from Prague to Plzen, Rozvadov and Nuremberg in Germany and to the D8 connection to Dresden in Germany. As far as Prague itself is concerned, the construction of an express ringroad around the city (about 65 km) that will connect with major highways is of primary importance. As for Czech railways, the government launched a programme aimed at modernising and rebuilding main corridors. Prague is the node of the railway network in Bohemia, and of course, its position is much more important with regard to international trains.

There are four international airports in the Czech Republic; however, only Prague-Ruzyne plays an important role in international transport. In September 1995, 32 airline companies were providing regular flights to Prague airport, of which 13 have come since 1989 (e.g., British Midland, Croatia Air Lines, Tunis Air, Deutsche BA, Airline Lithuania, Eurowings). The airport is one of the key actors, the real "gateway". The Czech Airport Authority has recently launched the reconstruction of Prague-Ruzyne airport that includes building a new check-in area. The development is to allow an increase in the volume of travellers checking in from the present 2.3 million per year to 4.8 million. The construction is financed by credits obtained from Investment and from the Post Bank that was given with the guarantee of the Czech Government. Without any doubt, the Czech Republic and Prague in particular will benefit from extending telecommunication facilities, road and express highway networks, railway tracks and airport capacity. It will have positive effects on local economic development as it will further open "the main gateway", bringing more people, goods, capital and prosperity to the Czech territory.

4. Local conditions in real estate, labour market and specific cultural features

While geographical location, economic development and links to telecommunications and transport infrastructure create a general environment, gateway cities themselves are concrete geographical settings where the actors of integration are located, such as the headquarters of multinational firms, international business services or labour migrants from Eastern Europe. The multinational companies as well as various types of business services (financial services, specialist law and accounting firms, professional consultant firms, real estate firms, media and advertising) have certain basic requirements for their operation. The most important are technical conditions that include sufficient supply of quality office space, developed telecommunication links and good transport networks. An additional requirement is availability of a highly educated labour force which can partly be supplemented by foreign employees. Some specific features, such as a beautiful historic city centre or a highly developed cultural life, can also strengthen the attractiveness of a gateway city.

Since 1989 there have been considerable changes in the functional, physical and aesthetic environment of the city that influenced the mental perception of Prague as a good business location, the primary tourist destination, the target of labour migration from Eastern Europe, etc. The changes were enabled by quickly implemented transformation processes (Sýkora, 1994; Sýkora and Šimonícková, 1994) and relatively successful spontaneous shifts to the market.

One of the key factors that enhances the attractiveness of Prague as a business location is a good supply of high quality office space. In the early 1990s, a rapidly growing demand for office space in Prague, generated mainly by foreign companies, and the limited availability of office accommodation caused a huge gap between demand and supply. In response, Czech state-owned enterprises started to rent their own office space and new private owners of restituted (re-privatised) houses tried quickly to refurbish their property and capitalise on the leases to foreign companies. However, these offices were of poor quality.

Huge demand, high rents and more than double the returns in Western Europe attracted investments in real estate. First, high quality new buildings and refurbishments came on Prague's commercial property market in 1993. The period from 1993 to 1995 was characterised by a rapid development of new and refurbished commercial properties. The supply of new and refurbished office space grew from 54,000 square metres in 1993 to 154,000 square metres in 1995. Altogether, 99,000 square metres in newly constructed centres and 212,000 square metres in refurbished buildings were added to the city office stock in 1993-1995 (Šimonícková, 1996). The characteristic feature has been a high concentration of new commercial buildings in the city centre, where 70 percent of the new and refurbished office space was built. A large number of commercial buildings will be finished in 1996-2000. The new trend will be a dispersal of construction to inner city sub-centres and outer city areas. It is expected that supply will match demand by the end of 1997. The growing availability of high quality office space in prime locations helped to create an image of Prague as offering good conditions for running business in Central and Eastern Europe.

Perception of Prague as a good business address is strengthened by the city's historical, cultural and architectural heritage. The entire historic centre of the city was proclaimed by the Czechoslovak government as an urban historic reserve protected by law in 1971 (Sýkora, 1995). The reserve encompasses the area where the development of the city was concentrated until the 19th century, an area containing 13 national cultural monuments, 1,400 protected architectural monuments, and about 10,000 protected works of art and artefacts. Also 36 percent of the building stock is protected in an area where only 5.6 percent of all houses were built since 1945. In 1993 Prague's historical reserve was put on the list of UNESCO's world cultural heritage. Charm and fascinating unique atmosphere, spread by mass media throughout the world, attract people to visit Prague or to establish their businesses there.

Prague's local labour market also has a key role in the development of city's gateway functions. On the one hand, a highly educated and skilled labour force is seen as one of the crucial preconditions for the location of foreign firms. On the other hand, an unprecedented low and steady rate of unemployment in the city, which is around 0.3 percent (in 1995), is a very important pull factor for foreign labour migration from Eastern Europe, mainly from Ukraine, Poland and other parts of the former Soviet bloc.

There have been no explicit urban policies aimed at attracting foreign firms and investment to the city. Sometimes, it has been recognised that the pressures of foreign actors are greater than the city can accommodate. Consequently, the City of Prague Master Plan and especially the preparation of the Strategic Plan has been focused not only on designating areas for future office construction, but also questions of active regulation of commercial developments have repeatedly been raised.

C. The performance of gateway functions

There are a number of ways in which gateway functions can be seen. In our view, the most important processes enhancing the role of gateway in Prague's case are: 1) the growth of foreign and international companies and foreign direct investment in the area; 2) the development of telecommunications and transport networks; 3) temporary labour migration from Eastern Europe; and 4) foreign tourism.

1. Foreign and international companies and foreign direct investment in the area

The key actors in integration are multinational companies that attempt 1) to extend their production base to Central and Eastern Europe, and 2) to expand the market in which their products are sold. The expansion of production is mainly based on the use of local skilled and cheap labour, in some cases combined with rationalisation of production and expansion of production to new potential markets. The expansion of markets is based on an expectation of growth in wealth, a rise in the disposable incomes of the local population and increasing consumption. It is achieved by establishing production facilities (often by acquiring existing formerly state-owned companies – Volkswagen, Philip Morris, Procter and Gamble or Nestlé in the Czech Republic) or expanding the firm's trading activities to the area (IBM, for example). Until now, the majority of foreign firms located in the Czech Republic expanded their trading operations. Approximately 85 percent of foreign and international (joint venture) firms operate in the tertiary sector (business services, retail and wholesale, etc., Uhlír, 1995). Investments in production are limited in number, but they form a substantial part of the total foreign investments in the country.

The establishment and operation of international production and trading companies is supported by business services that include financial services, professional consultantcy and law firms, audit and accountantcy services, real estate services, media and advertising. Both the headquarters of foreign production and trading companies and business services tend to locate in gateway cities. The highest concentration and centralisation in large urban centres is exhibited by business services, while the management functions of production are less centralised geographically.

As already mentioned, Prague has a substantial share of all company headquarters, especially banks, and business services (Blazek, 1996). Many of these companies are foreign-owned or joint ventures. The economic life in Prague had already become quite international at the beginning of the 1990s. By the end of 1994, 26 percent of all registered economic entities in Prague were in foreign or international (partly foreign and partly domestic) ownership (Table 4). The internationalisation of Prague can be described not only in terms of foreign firms located in the city but also by looking at the numbers foreigners employed and resident in Prague.

2. The development of telecommunications and transport connections

The performance of gateway functions in the city of Prague was made possible by the development of telecommunications and transport infrastructure and currently is mirrored in the increasing intensity of telephone calls and transport connections. Prague is the most important control centre in the country, with the most intensive exchange of information. This can be documented by the number of outgoing minutes of telecommunications traffic (MiTT). In December 1993 Prague accounted for 37 percent of the outgoing minutes of telecommunications traffic, while its share of the republic's total telephones was 28.7 percent.

Changes in the geographical pattern of telecommunication contacts highlight the actual performance of the city's gateway role. In the period from 1989 to 1995, Germany was the most important partner in terms of outgoing and incoming MiTT. The position of the former Soviet bloc countries (Poland, Russia, Hungary and Yugoslavia) has been weakening, while that of Western countries has been strengthening (Tables 5 and 6). We suppose that most of the telecommunication contacts represent international economic links, as phone and fax have become indispensable for organising and managing international business operations in the Czech Republic and Prague[3].

The development of transport communications is another example of strengthening the integration of the Czech Republic, and Prague in particular, into the European settlement network. Out of all foreign visitors who came to the Czech Republic in 1993 and 1994, around 97 percent came by road, while only 2 percent of foreign visitors came by train (Czech Ministry of Economy, 1995). According to figures compiled by Czech Railways, in July 1995, Prague was the final destination of 46 percent of all passengers on international trains (excluding local trains in border areas), 21 percent were in transit and 33 percent travelled to other parts of the country. In Euro City and Inter

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[3] One might compare the telecommunication contacts by countries with the Czech import/export regional picture. Exports: 56 percent to the European Union, 16 percent to Slovakia, 16 percent to other CEECs in transition. Imports: 56 percent from the European Union, 13 percent from Slovakia, 16 percent from other CEECs (January-September 1995, *Aktuality*, 1995).

City trains, 36 percent of passengers were on business, 27 percent on a visit, 21 percent travelled for recreation purposes and 16 percent commuted to work or school (November 1995).

Since 1989, there has been a substantial permanent increase in the international air transport of both people and goods. While domestic flights have been diminishing, international ones increased rapidly. Prague's Ruzyne airport has a clear dominance over other airports in the Czech Republic, especially with regard to international commercial passengers, freight and mail (Table 7).

3. Temporary labour migration from East European regions

Prague is experiencing a relatively large inflow of migrants coming from Eastern Europe, hence revealing a new and different gateway city function. According to official statistics, at the end of 1994, there were about 34,000 officially registered foreigners (mainly from Eastern Europe) in Prague. Of these 5,800 had a permanent residence permit (granted specifically for family reunion) and 28,365 a long-term residence permit (granted for entrepreneurial or employment activities)[4]. The registered foreigners represent almost 3 percent of Prague's permanent residents. As compared with the whole Republic, Prague itself is host to about 33 percent of both migrant categories. The number of registered foreigners in Prague increased by almost one half in 1993-94, following the trend characteristic of the whole Czech Republic. Table 8 gives the breakdown of migrants in the whole country by nationality. The most important groups are Ukrainians, Vietnamese and Poles.

The long-term residence permits are prerequisites for granting work permits. Consequently, they are related to foreigners' involvement in local labour markets. The work permits are typically issued in large urban centres (Drbohlav, 1995). The number of work permits granted to foreigners in Prague has risen sharply: for example, it increased by 58 percent during the 6 months between September 1994 and March 1995. Poles and Ukrainians accounted for more than half of all work permits granted in the Czech Republic as well as in Prague in 1994 (Table 9). In Prague, 80 percent of work permits holder were males, mainly East Europeans working in the construction industry. There is a remarkable contrast between Eastern and Western work permit holders: while 97.5 percent of Ukrainians were manual workers, 78 percent of US citizens were university graduates. Trade licences granted to foreigners to carry on their business activities in the Czech Republic are also highly concentrated in Prague, where 8,871 permits were issued in 1994. This represented 48 percent of all the trade licences granted to foreigners throughout the whole country until December 1994.

The picture is very different when unregistered immigrants are included. The total number of foreigners in Prague and its hinterland, both registered and unregistered,

[4] The corresponding figures for the whole Czech Republic were 33,113 and 71,230, respectively.

permanent and temporary (tourists are excluded), was estimated at between 100,000 and 130,000 (Cermák, et al., 1995). This amounted to about 10 percent of population. Besides 34,000 foreigners who stay in the city legally, there are identifiable groups mainly composed of unregistered/illegal persons.

First, there are 20,000 to 30,000 mostly young North Americans living in Prague temporarily, but generally for longer than a year. They work often as English teachers or on unofficial short-term contracts in various types of businesses. They have created their own community with a specific subculture. A second group consists of about 5,000 to 10,000 employees and representatives of West European foreign firms and organisations; they commute between Prague and their West European headquarters. Third, some 20,000 Chinese are active especially in the service sector. Fourth, about 20,000 Ukrainian workers are working for construction and similar companies without having the required permits. Fifth, there are about 10,000 transitory migrants, who stay in Prague only for a short time, heading for the "real West".

4. Foreign tourism

The gateway role also resides in strengthening mutual contacts among people with different economic, social and cultural backgrounds. This function is expressed in the form of individual tourism, congress and conference activities, exhibitions and fairs, etc., which are highly concentrated in the major urban centres. Individual tourism as a mass activity has probably had the most important impact on the changes in the general perception of Europe as an integrated space.

Since 1989, there has been a sharp increase in the numbers of foreign visitors to the Czech Republic (Table 10). The number of visits grew fourfold between 1989 and 1994. A large proportion of foreign visitors are short-term movements in the frontier region. Between January and October 1995, 83.4 million visitors crossed Czech borders, 74 percent coming from neighbouring countries, 60 percent of them from Germany. From January to September 1995, 2.7 million tourists from abroad officially stayed in accommodation facilities in the Czech Republic, 960,000 came from Germany followed by tourists from the Netherlands, Italy, Austria, Slovakia, Poland, Spain, Great Britain, France and the Unites States (Ministry of Economy statistics). The average tourist spends about 4 days in the country. At the same period, 1.2 million tourists from abroad stayed in registered accommodation facilities in Prague. Their average stay was also about 4 days (Ministry of Labour and Social Affairs statistics). However, the real number of visitors is much higher since many tourists do not stay in officially registered facilities.

The expenditure of tourists brings economic development to the country and especially to major tourist regions. In 1994, tourists spent US$ 2 billion in the whole republic. The income from tourism represented about 14 percent of Czech exports and accounted for about 5.5 percent of the GDP (Ministry of Economy statistics).

D. Consequences for the city's development

The development of gateway city functions, internationalisation and the integration of Prague into European urban and regional systems has had substantial impacts on 1) changing the position of Prague within the European urban network and 2) changes in the internal spatial structure of the city itself.

What will be the future position of large Central European capital cities (Budapest, Prague, Vienna, and Warsaw) within the European urban hierarchy and how they will be integrated into the European urban network? The network of cities is a relational structure which evolves over a long period. The individual parts of the network (cities) are linked together by mutual relationships. The nature of these relationships differs depending on the intensity of mutual contacts between cities and the power relations involved in these contacts. The character of the network of cities is shaped by interrelationships structured by different degrees and forms of power and influence exercised by individual cities. The influence of cities is based on the concentration of progressive functions influential in economic and political development.

The basic form of relations between cities is hierarchical, and this has been developed mainly within the territories of individual states. In the age of internationalisation and globalisation, a new hierarchical level of global cities has emerged. Furthermore, the contemporary reorganisation of production and services towards the hierarchical (spatial) division of labour influences changes in the existing hierarchy of European urban centres. The changing positions within the hierarchy is also seen as a consequence of competition between European cities for the new progressive functions. Those cities that can provide better infrastructure, offer more favourable economic conditions and exhibit certain specific features can attract more new investments than the other cities. Individual cities compete against each other to sustain or improve their economic and social well-being. Budapest, Prague, Vienna and Warsaw are attempting to attract the headquarters of new firms and institutions coming to Central Europe and to increase their regional influence.

Internationalisation and globalisation brings more intense economic and social contacts between cities on an international level. The developments within the simple hierarchy of autonomous cities is complemented by the emergence of integrated systems of cities. The openness of Central and Eastern Europe and the political and economic transformation in the former communist bloc countries creates a potential for the establishment of new progressive functions in Central European capitals as well as for their integration into the (West) European urban network. Several expectations were raised about the form of integration and the role of Central European cities in the wider urban network.

Dostál and Hampl (1992) suggest that the urban regions on the axis Copenhagen-Berlin-Leipzig-Dresden-Prague-Vienna-Budapest could be integrated to form a zone of intensified urbanisation. This geo-economic zone will then represent a base for the eastward extension of modernisation processes from the core regions of Western

Europe. Enyedi (1994) thinks that Central European capitals should develop gateway functions for Eastern and Southern Europe. Gorzelak, et al. (1994) defines a new innovation belt that incorporates the area between Florence-Szeged-Warsaw-Kaliningrad-Stockholm-Oslo-Hamburg-Nuremberg-Florence. Musil (1993, p. 905) expects the "situation based on intensive interaction and symbiotic competition between all the capital cities" in Central and Eastern Europe. What seems to be obvious is that Berlin and Vienna on the one side and Warsaw, Prague, Budapest and Bratislava on the other side, besides developing contacts within their own group, will also engage in a mutual "competitive co-operation" to strengthen their integration into Western Europe (Dostál and Hampl, 1992).

The role of gateway has had an impact not only on the integration of the rest of country into the Western world, but it significantly influenced life in the city itself and substantially contributed to changes in the physical, functional and social aspects of its internal spatial structure. The most important contemporary trends in urban restructuring in Prague are rapid commercialisation of the central city, foreigner-led gentrification of certain zones in central and inner city neighbourhoods, and sub-urbanisation of the outer city (Sýkora, 1996). In contemporary Prague, there is growing income and social polarisation as well as differentiation of lifestyles, social and cultural values (Sýkora, 1994). This development generates a highly differentiated demand which is reflected in the differentiated supply of goods, services and housing. New developments have a very selective impact within Prague's urban space. Consequently, a new socio-spatial division of urban space is developing.

The city centre is undergoing a substantial revitalisation, which is taking the form of commercialisation (building of new commercial centres, rehabilitation of old residential buildings and their conversion into offices, etc.). The process has both positive and negative impacts on urban development. Commercialisation brings rehabilitation of physical environment and secures job opportunities in the city centre. However, it also causes rapid decline in the residential function of central city neighbourhoods, creates development pressure on changes to historic buildings and brings a larger amount of car traffic into the medieval city road network.

Certain central and inner city areas are going through residential revitalisation which often takes the form of foreigner-led gentrification. The working activities of foreigners/immigrants – mainly professionals – who work for foreign or international firms/companies in the city centre are accompanied by their effort to find housing which would correspond to their social status. They usually wish to live in the centre or its near vicinity. The internationalisation and integration into Western Europe and the developed world in general thus causes changes in the socio-spatial structure of the city of Prague. The major trend is towards growing socio-spatial differentiation.

E. Conclusions

Prague acts as the gateway for the whole of the Czech Republic. In addition, certain functions may develop even in relation to Slovakia, although their influence is, in comparison with Bratislava, rather marginal. In certain individual cases, Vienna has a gateway function for the Czech Republic (for example, in IBM's internal hierarchy). Nevertheless, the role of Vienna for the Czech territory is slight in comparison with the overwhelming influence of Prague. Consequently, the integration of Prague into the European urban and regional system is determined by Prague's position as an independent and strong regional centre with a geographical impact that does not exceed the Czech territory and whose dominant position there is not substantially challenged by any other Central European city.

Prague has the advantages of being the westernmost capital city in Central and Eastern Europe with relatively easy access through a well-developed transport infrastructure. The shared history with Austria and the heritage of ideas dating from the inter-war period, when the country was a democratic republic with a market economy, significantly affect people's behaviour and to a certain extent traces are even preserved in existing legal norms.

Prague is the centre of a relatively small country with a limited market. However, political and economic stability, good macroeconomic performance and successful privatisation programmes make Prague and the Czech Republic among the most attractive locations for foreign companies and investments. The Czech Republic offers good opportunities for multinational companies to expand production to the country. The most important factors are supply of existing firms with their facilities through privatisation policies, possibilities to extend or built new production capacities, and the availability of a skilled, cheap and peaceful labour force. Furthermore, Czech cultural values are strongly Western-oriented, on both individual and institutional levels. With the expectations of economic growth on the national level and continuously increasing personal wealth and, consequently, individual consumption, the Czech Republic presents a potentially good market for the products of multinational companies.

No other city can compete with Prague, as the largest conurbation in the Czech Republic with a substantial share of progressive functions, for its role of gateway city. The internal conditions for foreign firms to locate there have improved substantially over the past few years: the supply of office space has boomed and, despite a certain structural shortages, the relative balance between supply and demand has been achieved in the city. The improvement in telecommunications has also been rapid and changes continues. Attempts to improve transport connection have focused on extending the airport terminal, building a highway between Prague and Germany and preparations for a high speed rail corridor from Berlin to Prague and Vienna.

The actual performance of its gateway functions is being achieved in several ways. First, the existence and high concentration of foreign firms, companies, corporations and immigrants in Prague proves that the city plays a leading role in establishing international contacts between the Czech Republic and other countries. Second, the involvement of East European immigrants/ workers in Prague's labour market shows how important a role the city plays as the gateway to Central and Eastern Europe. Third, the integration towards the West and links with the East are also mirrored in rapidly growing telecommunications and transport contacts and flows of information. The major trend in the geo-political and geo-economic position of the Czech Republic has been the re-orientation of the country towards the West, while the role of the East has been diminishing.

Foreigners have been contributing to changing the "heart and soul" of the city, most visibly its central area. The majority of new developments in the built environment have been induced by foreign actors. Foreign capital finances the construction of new commercial centres. Newly built and refurbished office buildings substantially contribute to the physical revitalisation of the central city. Foreigners' demand for housing brings residential revitalisation to certain zones in central and inner city neighbourhoods. However, these developments also have negative aspects: the local population is being pushed out of expensive downtown locations, the residential function is being replaced by commercial use, increasing car traffic is in conflict with pedestrians, and some new developments are conflict in aesthetic terms with the architectural heritage of the historic centre. The gateway function bring a high degree of turbulence to the city's life, it strengthens the city's position within the European urban and regional system, and changes the internal character of physical, functional and social aspects of its internal structure.

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Statistical annex

Table 1: Selected indicators of the position of Prague in the Czech Republic, 1989-1995

Indicator	Year	Prague's share of the Czech Republic (in percent)
Territory	1991	0.6
Population	1994	11.8
Value added in industry	1992	33.1
Construction works	1994 (first half)	28.4
Jobs in research and development	1994	42.0
Unemployed (registered)	1995 (November)	1.3
Vacant jobs	1995 (November)	15.9
Foreign investment (total capital)	1992	28.2
Large joint ventures with foreign investors (capital)	1992	27.0
Retail	1994 (first half)	42.6
Joint stock companies	1994 (first half)	34.6
Private entrepreneurs (registered)	1994 (first half)	15.9
Students at universities	1989	45.9
Population 15 years old and older with university level education	1991	27.2

Source: *Illner* (1995), *Statistické* (1994), *Okresy* (1995), *Vysoké* (1995) and the Czech Academy of Sciences and the Czech Statistical Office.

Table 2: Macroeconomic performance of the Czech Republic, 1995

Population (million)	10.3
Total GDP (US$, billion)	44.9
GDP per capita (US$)	4,338
GDP growth (percent)	5.2
Unemployment rate (percent)	3.5
Inflation rate (percent)	9.1

Table 3: Number of telephones in the Czech Republic and Prague, 1990-1995

		1990	1991	1992	1993	1994	1995
Prague	(A)[1]	499	518	540	563	598	638
	(R)[2]	100	103.8	108.2	112.8	119.8	127.9
Republic	(A)[1]	1,623	1,707	1,818	1,961	2,160	2,390
	(B)[2]	100	105.2	112.0	120.8	133.1	147.3

Source: PT Telecom. – [1] In absolute terms (thousands). – [2] In relative terms (growth from 1990 = 100).

Table 4: Foreign and international firms operating in Prague, 1990-1994

In absolute terms

	1990	1991	1992	1993	1994
Foreign[1] firms	547	2,122	3,495	4,996	6,234
International[2] firms	306	1,871	2,925	4,196	5,126
Total	6,284	15,820	24,813	34,539	43,709

Source: Register of economic entities, Czech Statistical Office. – [1] Owned exclusively by foreigners. – [2] Owned jointly by Czechs and foreigners.

Table 5: Outgoing minutes of telecommunication traffic (MiTT) to selected foreign countries, Czechoslovakia/Czech Republic, 1989-1995

In percent

	1989	1991	1993	1995
Germany	25.75	28.49	29.72	31.73
Poland	13.72	5.82	3.98	3.95
Austria	10.17	12.5	11.42	9.37
Russia	9.26	4.31	3.52	2.95
Hungary	5.95	4.01	3.03	1.48
Switzerland	4.05	4.58	3.54	3.05
Italy	4.05	5.44	5.56	5.15
Yugoslavia	5.25	3.42	2.66	1.93
USA	2.82	7.04	4.99	3.94
Great Britain	2.22	3.88	5.54	6.26
France	2.54	3.72	3.97	4.25
Netherlands	1.48	2.38	2.91	3.27
Total[1]	87.26	85.59	80.84	77.33

Note: Despite eliminating some "problematic" issues, the figures are partly distorted by various events like the split of Czechoslovakia (until September 1993 common financing with the Czech Republic), the former Yugoslavia and the Soviet Union, the unification of Germany, and changing the companies in the USA with which SPT co-operates.

Source: SPT Telecom. – [1] The declining trend over time might be caused by the newly installed automatic operation system in countries which are not included in the table. In such cases, then, the intensity of contacts grows 200 percent. Logically, such a situation relatively diminishes the weight of the above countries, where the automatic operation system had been installed earlier.

Table 6: Incoming minutes of telecommunication traffic (MiTT) from selected foreign countries, Czechoslovakia/Czech Republic, 1989-1995

In percent

	1989	1991	1993	1995
Germany	36.18	35.97	38.58	38.3
Poland	4.71	3.36	2.59	2.87
Austria	9.19	10.49	9.56	9.11
Russia	4.54	2.8	2.58	1.8
Hungary	4.56	4.66	2.75	1.29
Switzerland	6.46	7.92	4.85	4.34
Italy	4.29	7.06	5.45	4.93
Yugoslavia	3.09	2.82	2.09	1.64
USA	6.33	9.92	7.9	8.63
Great Britain	2.82	5.09	4.62	6.01
France	2.51	3.22	3.34	3.41
Netherlands	1.73	3.11	2.74	3.04
Total	86.41	96.42	87.05	85.37

Note: Despite eliminating some "problematic" issues, the figures are partly distorted by various events like the split of Czechoslovakia (until September 1993 common financing with the Czech Republic), the former Yugoslavia and the Soviet Union, the unification of Germany, and changing the companies in the USA with which SPT co-operates. – Source: SPT Telecom.

Table 7: Praha-Ruzyne Airport (PRA), selected parameters, 1992-1994

	1992	1993	1994	Share (1994) PRA/Rest[1] (in percent)
Movements				
Domestic	6,374	2,919	3,772	98.4
International	36,671	53,652	57,235	99.9
Commercial passengers				
Domestic	141,117	16,312	14,273	98.2
International	1,682,015	2,226,200	2,668,558	99.9
Freight (metric tonnes)				
Domestic	567	83	71	96.7
International	13,053	14,929	16,039	99.9
Mail (metric tonnes)				
Domestic	1	1	1	70.6
International	2	1,857	7,895	100.0

Source: The Czech Airport Authority. – [1] "Rest" means the rest of the international airports in the Republic: Brno-Turany (South Moravia), Ostrava-Mosnov (North Moravia) and Karlovy Vary-Olsová (West Bohemia).

Table 8: Foreigners legally staying in the Czech Republic by nationality, December 1993

	With long-term residence permits		With permanent residence permits	
	Total	Percent registered in Prague	Total	Percent registered in Prague
Poland	8,655	15.6	12,580	7.4
Vietnam	6,785	25.8	1,004	6.9
Ukraine	4,809	21.2	1,208	1.8
Former Soviet Union	3,240[1]	45.3	2,728[2]	34.1
Former Yugoslavia	2,978[3]	63.2	1,303[4]	28.2
China	2,543	90.5	24	83.3
Germany	1,976	39.2	966	26.9
USA	1,621	52.4	1,015	45.2
Bulgaria	1,172	59.8	2,877	24.2
Austria	984	39.2	579	13.0
Great Britain	795	43.3	66	45.5
Russia	525	42.9	663	2.6
France	511	77.5	131	31.3
Romania	489	22.7	550	12.9
Italy	478	49.0	338	28.1
Greece	189	31.2	2016	10.0
Cuba	68	55.9	423	18.2
Total	46,070	38.5	31,072	16.8

Source: Czech Ministry of the Interior. – [1] Except for Ukraine, Russia and 309 other aliens with passports of individual republics of the former Soviet Union. – [2] Except for Ukraine, Russia and 28 other aliens with passports of individual republics of the former Soviet Union. – [3] Except for 718 other aliens with passports of individual republics of former Yugoslavia. – [4] Except for 101 other aliens with passports of individual republics of former Yugoslavia.

Table 9: Valid work permits granted to foreigners in the territory of the Czech Republic and Prague by nationality, December 1994

	Czech Republic (in absolute terms)	Prague (in absolute terms)	Share of Prague in the total (in percent)
Ukraine	12,682	4,006	31.6
Poland	8,719	1,026	11.8
Former Yugoslavia	1,853	774	41.8
USA	1,467	890	60.7
Germany	1,143	487	42.6
Great Britain	1,096	685	62.5
Rumania	724	121	16.7
Former Soviet Union[1]	716	155	21.6
Russia	639	6	0.9
Bulgaria	616	221	35.9
Vietnam	431	38	8.8
Austria	381	201	52.8
France	299	192	64.2
Canada	211	92	43.6
Mongolia	209	4	1.9
Total	32,871	10,139	30.8

Source: Czech Ministry of Labour and Social Affairs. – [1] Except for Russia and Ukraine.

Table 10: Arrivals of foreigners in the Czech Republic and foreign-currency balance from travel, 1989-1994

Millions

	1989	1990	1991	1992	1993	1994
Arrivals of foreigners	23.24	36.57	50.86	69.41	71.73	101.14
Foreign-currency balance (US$)	492.2	418.5	713.7	1,126.1	1,557.8	2,000.0

Source: Czech Ministry of Economy, 1995.

MIGRATION, FREE TRADE AND REGIONAL INTEGRATION IN CENTRAL AND EASTERN EUROPE

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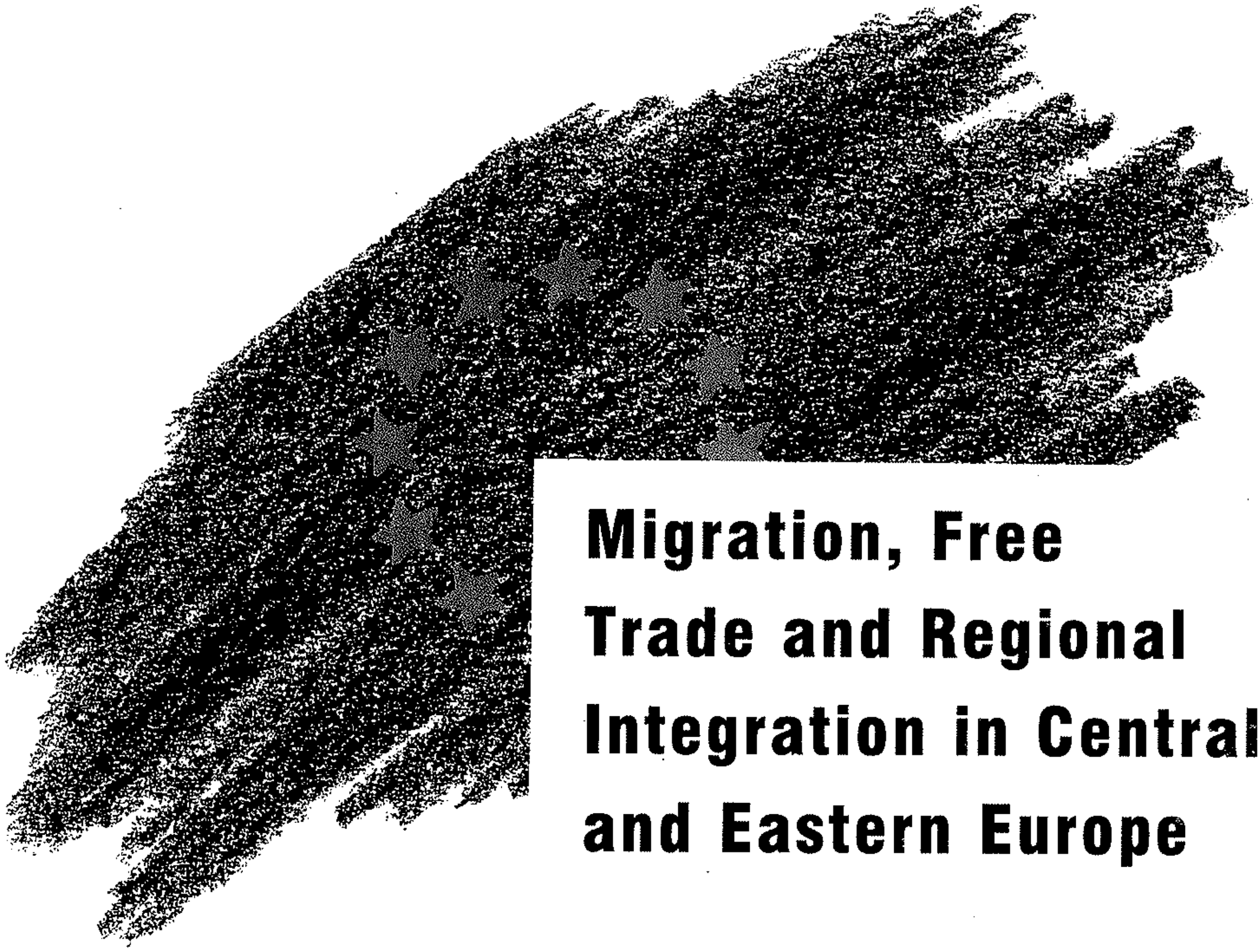

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