Economic Growth and Cohesion in the Context of 2013 Romania’s Territorial Regionalization

Vasile BLEOTU¹, Nicoleta-Cătălina MĂNOIU²

¹Faculty of Finance, Banking and Accountancy, “Dimitrie Cantemir” Christian University, Bucharest, Romania, E-mail: vasilebleotu@yahoo.com
²Faculty of English Political Sciences, University of Bucharest

Abstract
Regional disparities are a priority both on the European agenda, and on the Romanian agenda of policy makers. The policy prescriptive character of the present paper aims to address the need to overcome regional disparities in the European framework in a context of continuously changing economic background. The comparative perspective on the European funds absorption in the Romania and the asymmetric distribution of resources between European member states, regions and social groups aiming to identify a legislative architecture that would increase the absorption of the European funds and will create an economic environment able to cope both with the challenges and the vulnerabilities of the 2014-2020 Romanian European funds absorption strategy in the context of regionalization.

Key words:
Regional disparities, European funds, Romanian legislation, economic competitiveness

JEL Codes:
F43

1. Socio-economic legacy and the dynamics of the Romania’s 2013 administrative regionalization

The regionalization of the Romanian state is designed to put forward the implementation of Europe 2020 strategy objectives, enhancing thus the economic performance in regions that were affected by shock of serious economic disruption. Apart from the major structural changes of economic interaction caused by the 2008 economic crisis and austerity policies imposed by the government, the Romanian state faces the challenge to overcome backwardness patterns of fiscal consolidation. The 2014-2020 European funds budget allocated for Romania (~28 mil. Euros) ought to transpose, according to the Romanian state priorities and needs for development, the 11th thematic objectives in investment priorities design to increase the economic competitiveness of the European project and to promote the competitive advantages of the Romanian economy through national investment projects.

The regional disparities should not be considered/seen a failure of the territorial architecture established through the Law 151 on 1998 on regional development. The previous regional administrative establishment of the Romanian state achieved its aim to provide territorial national cohesion, but due to the challenges of the rapid changing global society it is no longer able to provide a adequate framework for the implementation of a set of development strategies that rest on principles such as subsidiary, integration, functional specialization, innovation and clusters (SHEARMUR, R, 2011, pp. 1124-30) that evolve under the incidence of the “labour division”.

The need for the regionalization of Romania, despite its “top-down project of territorial reform” emerged into a context in which the hypertrophic character of the EU aquis and the absence of an European benchmark that could guide former national policies tackling regional development and cohesion had created the premises for “a diversity of domestic reactions” and hybrid institutional regional structures. The broad processes of socialization and the impact of the EU’s regional cohesion policy let to the emergence of new patterns of socialization and multi-level governance, but despite the fact that regional institutions managed to enhance their legitimacy on the EU framework of regional policy and Structural Funds they lack capacity to fully integrate economic and social entrepreneurs potential into the national economy and to adequately access the European cohesion focus funding. The socio-economic dimension of 2013 Romanian administrative regionalization is approach/derived in the light of nature and dynamics of development
asymmetries, the similarities and the complementary character of the counties that have a socio-economic and cultural background that encourage cohesion, migration dynamics and European standard of good practices (NUTS3) that are to be found at the core of the programmatic documents (JORDAN, P., 2003, pp. 141-155).

The regionalization process corroborated with a higher rate of absorption of the European Funds is bound to create the premises for the reallocation of productive factors from traditional agriculture to modern agriculture, industry and services, and the reallocation of those factors among industrial and service sector activities, aiming to strengthen economic linkages within the Romanian framework and to create domestic technological capabilities.

2. The legacies of the 2007-2013 European Funds Absorption

The 2007-2013 European Funds Absorption strategy was bound to cope with severe economic challenges such as: economic slowdown, volatile budget deficit, a rate of unemployment of 62.8%, insufficient horizontal and vertical foreign direct investments (due to the lack of predictability of Romanian legislation and fiscal backwardness that has characterised Romanian economy) that could foster the transfer of resources and technologies towards asymmetric developed regions, severe structural deficiencies in internalising free market mechanism and widening regional disparities that manifested within national regions, but also within the European Union.

From the total amount of 19,668 milliards euro that were allocated for Romania as European Structural and Cohesion Funds, 12,661 milliards euro were Structural Fund that were to create the premises for the achievement of “Convergence Objective”, while 6,552 milliards euro were part of the Cohesion Fund and 0,455 milliards euro were allocated for the “European Territorial Cooperation Objective”. European financial aid was granted under the light of the refund of the expenses actually performed. According to the CSNR (Cadrul Strategic National de Referinta 2007-2013) the Structural Funds allocated for the “Convergence Objective” (12,661 milliards euro) and the Cohesion Fund (6,552 milliards euro) were bound to benefit from a national co-funding estimated at 5.53 milliards of both from the public budget (77% out of the total amount of the ~5.53 milliards) and from private sources (23% out of the total amount of the ~5.53 milliards). (LUCACIU, L., 2012)

The 25, 198 milliards euro that were allocated for Romania should have created the premises for a constant absorption per year of almost 3% from the GDP. Baring in mind the principle of the refund of the expenses actually performed, for the 2007-2013, Romania should have received from the European Commission, until 2015, 19,213 milliards euro, having its own share of co-funding of 24,76 milliards euro (co-funding from public sources). One of the main causes of the inefficient absorption of the emerged due to the fact that the Romanian state failed to allocate through state budget the amount of almost 3% of the annual GDP which should have been allocated for the funding of the national projects. The absence of the financial resources corroborated with the restrictive conditions of lowing, slowed the path of development of the Romanian economy. Among the premises of the failure to absorb the European Funds that were allocated for the time span of 2007-2013, it worth outline the failure of the banking system to adequately support through banking financial products the access of MMI and NGO actors to the financial aid allocated for the Romanian state, which was mirrored at the level of policy-making agenda by the absence of correlation between Operational Programmes and transparent procedures and adequate quantum for granting pre-financing.

3. Economic growth

Historically rapid growth is associated first and foremost with the expansion of industrial activities Industrial development, in the light of the Romanian realities, is considered central to the process of structural transformation which characterises economic development.

The design and implementation of industrial policies in developing countries such as Romania should entail three important dimensions: innovations (in a Schumpeterian acceptance of the concept), linkages (Hirschman), and surplus labour (Lewis). According to Schumpeter, in developing countries (such as Romania) “clusters” of interlinked economic agents involved in trading goods and services, ideas and the human capital which is part of this economic activities, are considered to be agents of change and development of the industrial landscape. In nowadays global economy, developing regional linkages, concept which is to be understood according to Hirschman, tends to become more important than integration into world markets per se, according to Hirschman not all patterns of integration into international markets have the same effect on economic growth. In the light of the work of Lewis, surplus labour is available only virtually as unlimited supply to the modern sector, where it could be employed more productively. The absorption of this surplus labour or, in the opposite case, the incapacity to acquire it, is prone to be considered as being one of the more important determinant of overall factor productivity growth in developing countries than technological
change has proved to be. (OCAMPO, José Antonio, 2007, pp. 27-40)

Key sectors with potential for developing countries even if they have become more competitive than they were in the previous times, call for innovative adaptive strategies (in a Schumpeterian acceptance of the concept). In the case of developing countries that focus on broadening of their development perspectives, the industry might define to a certain extent, but do not exhaust the opportunities for producing high value added goods and services able to penetrate international markets. Knowledge intensity, fostered in the case of Romania, a European Union member state, through Life Learning Programmes is increasing across all spheres of economic activity, including agriculture and services the know-how which can offer promising real and sustainable development paths. The experience acquired between the time span of 2007-2013, revealed, outlined that the percentage of 62,8 people aged 20-64 that should be employed, and the share of early school leavers which reached almost 17,5% are indicators that cannot fully respond to the European Union needs for economic and social cohesion, thus the targets for 2013-2020 were raised at 70% people that should be employed aged 20-64, corroborated with a share of 11,3 % early school leavers (COUNCIL RECOMMENDATION on Romania’s 2013 national reform programme and delivering a Council opinion on Romania’s convergence programme for 2012-2016, 2013, pp. 4-5).

The private sector is one of the most important creators of economic growth that should not be impoverished and impacted by corrosive agents such as unpredictable legislation and repressive financial policies. The Romanian private sector should benefit from the opportunity to internalize a truly capitalist vision of free market mechanism and should develop its lobby potential in order to overcome the current hybrid patterns of economic interaction. This objective can be achieved by creating the premises for interactions and partnerships between Romanian firms and competitive multinational companies. To cope with the challenges raised by market competition (which on short term can fuel economic shocks in unproductive economic sectors), the Romanian economy should benefit from a regional architecture which encompass a set of criteria, of financial and institutional tools that would make more accessible and efficient the process of European Funds absorption. Through regionalization, the Romanian economy should benefit from the existence of the transfer of resources and know-how towards the activities and areas which encompass the potential of achieving considerable added value and internalising intra-industrial specialisation.

An accurate analysis of the economic development in the context of 2013 project of regionalization is bound to outline that domestic factors are not the sole determinant of the agenda of policy-makers. The regional and global economic environments are also essential determinants of growth. In this respect, growth of multinational interest in corporate social responsibility should not be neglected, with consideration given to both the barriers and the opportunities that are specific to developing country and which impact the enterprises to establish connection dots to global supply chains. In contemporary global economy and rapidly changing standard of performance, economic development ought to be focus on diversification, not exclusively on specialization, Imbs and Wacziarg advance the hypothesis that the number of new export products is being associated to an inverted U-curve in income (IMBS, J., R. WACZIARG, 2003, pp. 63-86). It also worth’s being remembered that specialization patterns are not pinned down by factor endowment, in this respect only endowments backed by a coherent legislative architecture is prone to shape the structure of production. The territorial architecture advanced in the context of 2013 Romanian regionalization is bound to make possible the implementation at the level of each region, specialization patterns that are more conducive than others, baring in mind the peculiarities of each region, to promoting industrial upgrading.

4. Conclusions

Finance also plays a pivotal role in implementing the administrative, social and economic policies needed to attain the objectives that are to be finding in the European Union’s programmatic documents and that were assumed by Romania, as a member state. In this respect through regionalization, expenditures should become more transparent and more focused on research and development , the share of 0.47% has a higher probability to reach the target of 2%, which was establish for 2020. This will make possible the transition from a developing society to a knowledge based competitive economy that could cope with the inherent challenges that emerge in the context of globalization. Economic growth, being encouraged by the 28 mil euro allocated for Romania through European Funds for 2013-2020 period, might be fuelled by the accurate identification of potential infant industries that be establish in the light of the opportunities provided by the 2013 regionalization project.

Bibliography

2. Raportul Consiliului Consultativ pentru Regionalizare 2013, Disparități și fluxuri în fundamentarea social-economică a regionalizării administrative a României, București, 2013.