Romania between the challenges of competitiveness and regional cohesion

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ABSTRACT

Even if Romania succeeded to become a member of the European Union, the development gaps between its regions and those in the other member states continue to be significant. The paper will focus on analyzing the regional disparities in Romania, in terms of GDP/capita, FDI and possibly state interventions, with the view of creating a so-called typology of "winners and losers". After determining the winners and losers, a brief description will follow, underlining the key aspects that differentiate them from the other regions. Next, the paper will discuss some aspects related to the future perspectives for regional development in Romania, taking into account the perspective of reform at European level and discussions that are currently developing, related to trade-off between equity and efficiency, between cohesion and competitiveness. The last part of the paper will focus on providing a possible answer for the future of regional development, by analyzing the investment in research and innovation and the impact it could have in Romania.

JEL CLASSIFICATION: R00, R10, R11

KEY WORDS: regional development, cohesion, catching up, regional disparities

1. Introduction

During the period 2007-2013, Romania will be one of the net beneficiaries of the European Union's funds for cohesion and regional development. As one of the least developed countries in the EU, Romania is facing the challenging task of making good use of this money, after not having had very successful results during the pre-accession period.

The paper tries to draw a parallel between the Romanian regions of development, and those in Bulgaria and the 2004 group, and to review the future perspectives of regional development, taking into account the trade-off between equity and efficiency, between competitiveness and cohesion. The main purpose is to analyze the Romanian regions of development in the wider, EU context, and to formulate some possible solutions for implementing the regional policy in Romania.

The issue of designing a specific regional policy for Romania, by analyzing the different options available, is very important. As more and more voices in the EU talk about a shift in priorities from cohesion to competitiveness, Romanian regions should be prepared for the next programming period, which might bring a change in the EU budget and stricter rules for obtaining the funds.

At the same time, at national level, it is important to know the strengths and weaknesses of the regions, in order to better direct the funds and meet their need.

In the final part of the paper, investment in research and development is presented as a possible solution for Romania, to meet the challenges of cohesion and competitiveness.

An extensive literature is used in the analysis, made up especially of official EU studies and of articles belonging to well known experts in EU affairs and in the problems of the Eastern European countries.

In order to create an accurate image of the situation in Romania, statistical data is employed, both from the National Statistical Office, and from the Eurostat.

Challenges for cohesion and competitiveness at the EU level

After the most significant wave of enlargement (and possibly the last of this magnitude) experienced by the European Union, the issues of convergence, cohesion, redistribution and catching up are increasingly questioned and analyzed when discussing the short term priorities of the Community. Although nobody denies the need for reducing the development gaps between the regions and for helping the less advantaged areas of the EU, clashes appear when discussing the future of the Community and its priorities.

Faced with a probable (and necessary) reform of the budget in 2008, the old and the new member states are more and more divided into net contributors and net beneficiaries, each side trying to promote and defend its own interests. At the same time, while regional development and cohesion have gained increasingly more funds over the 2007-2013 period, more and more voices are questioning the efficiency of the regional policy and of the structural funds.

Undoubtedly, since its creation, the cohesion policy has become one of the most prominent EU policies. Over the years, it has been an instrument of financial solidarity and a powerful force for economic integration. European cohesion programs have helped directly to promote regional convergence and employment and the original development differences between beneficiary and contributor member countries decreased significantly.
However, despite a clearly noticeable convergence trend between the older and the newer members, as well as a significant increase in the development level of less developed countries and regions, several studies confirm that within the beneficiary member states there have been increasing regional disparities.
Even more, despite massive financial transfers, the original differences in development between the prosperous and the less developed regions did not really change. In some cases, previously existing gaps have been consolidated and widened (e.g. between Catalonia and Extremadura in Spain, Northern Italy and Mezzogiorno etc.).[1] Of course, there is more than one reason for this, from national factors to regional specificities (geography, factor endowment, institutional capacity etc.) and the efficiency of a EU-wide policy cannot be denied solely on these grounds. What is true is that specific conditions made the absorption capacity very different across the EU, hence a very different impact of the cohesion policy and structural funds and the criticism regarding an equal-standard regional policy for the entire Union.
The EU's enlargement on May 1st 2004 has exacerbated economic and social disparities across the EU. Recipients of Structural and Cohesion Funds such as Ireland and Spain have transformed from beneficiaries into contributors, as many regions are now located above the 75% threshold and have to support the development of their new partners. As a result, most beneficiaries of the cohesion policy are located in central and eastern Europe.
With over 70 regions eligible to receive funding from the EU (one in every four regions at Community level) the financial pressure has increased, at the same time with the fierce opposition against increasing the resources of the EU budget. According to the budget proposal for 2008, for the first time, spending on cohesion will represent 36.2% of the budget, ahead of direct payments in agriculture. Together with the spending on competitiveness, it will represent the highest share of the EU budget. At the same time, several support projects will become available for the new member states.
More and more voices speak about the necessity of shifting the priorities and instruments of the cohesion policy from plain redistribution to financing development and modernization processes. Linking the financial transfers under cohesion to the achievement of the Lisbon goals is not a new objective of the EU. However, so far this has had limited results, as the mechanisms for attributing Community funds to regional and local beneficiaries have remained roughly unchanged.

Taking into consideration all of the above, a reevaluation of the cohesion policy is necessary, and whatever the outcome, the new member states, Romania and Bulgaria particularly, will be directly affected.
Romania will be one of the beneficiaries of the Structural Funds, as all its territory is eligible to receive financial support. The question is how this money should be spent: is it more import to focus on catching-up with the other member states and thus to fuel the development of the engine-regions of Bucureşti - Ilfov and West or to focus on reducing intra-national disparities, and thus to direct more money towards the more backward regions of North-East or South West?
Establishing these priorities should be done by taking into consideration the fact that conditions are different from the previous waves of accession: not only are the newest members significantly less developed than the older ones, but the European Union itself is experiencing structural problems related to unsatisfactory economic growth and demographic ageing. Moreover, an increasing number of studies prove that the cohesion policy did not have the desired results in all regions. In fact, those who benefited most were the better developed regions, which knew how to take advantage of the financial inflows, but which arguably would have had a good performance even without the EU funding. Instead, the poor ones only received unsatisfactory results from the redistribution of income.

Short comparison between Romania, Bulgaria and the other new member states

Romania and Bulgaria are the poorest member states of the European Union, despite the fact that the growth of the GDP in real terms was significantly higher than that of other Member States.[2] This high economic growth in many of the lower income countries and a below average growth in a number of high income countries, among them some of the major economies in the EU, brought a narrowing of the disparities between the old and the new members, which was a sign that reforms are being implemented and economic recovery is under way.
Indeed, in the last years, all the central and eastern European countries have witnessed a significant improvement of their structural indicators, which means that their economies are benefiting from the opportunities of the free market and slowly but surely they are diminishing the development gap with the older member states.
It is expected that once the effects of the structural funds will begin to make a difference for their economies, the CEE countries will perform even better.

Table 1. Comparison between EU-15 and new member states, in terms of GDP growth rate

EU15 GDP growth rates				
Member State	% GDP Growth			
	2004	2005	2006	2007(f)
Austria	2.4	2.0	2.8	2.9
Belgium	2.4	1.5	2.7	2.3
Denmark	1.9	3.2	2.7	2.3
Finland	3.5	2.9	3.5	3.1
France	2.0	1.2	2.4	2.4
Germany	1.2	0.9	2.0	2.5
Greece	4.7	3.7	3.7	3.7
Ireland	4.3	5.5	5.8	5.0
Italy	1.1	0.0	1.5	1.9
Luxembourg	4.2	4.0	4.0	5.0
Netherlands	2.0	1.5	2.9	2.8
Portugal	1.2	0.4	1.2	1.8
Spain	3.1	3.4	3.4	3.7
Sweden	3.7	2.7	4.0	3.8
United Kingdom	3.3	1.9	2.7	2.8

New member states growth rates				
Member State	% GDP Growth			
	2004	2005	2006	2007(f)
Bulgaria	5.7	5.5	5.6	6.1
Cyprus	3.9	3.7	3.5	3.8
Czech Republic	4.2	6.1	6.0	4.9
Estonia	7.8	9.8	9.5	8.7
Hungary	5.2	4.1	4.5	2.4
Latvia	8.6	10.2	11.0	9.6
Lithuania	7.0	7.5	6.8	7.3
Malta	-1.5	2.5	1.6	3.0
Poland	5.3	3.4	6.1	6.5
Romania	4.1	8.5	7.7	6.7
Slovakia	5.4	6.1	6.5	8.5
Slovenia	4.2	4.0	5.2	4.3
European Union	2.4	1.8	2.8	2.4
Euro Area	2.1	1.3	2.4	2.0

f) Forecast; Source: Eurostat

When we consider the regional differentiation within individual states, we can find some common features which are characteristic for the majority of the countries in central and Eastern Europe [3].

Due also to a common historical development under centralized regimes, at the beginning of the transition period, regional disparities were relatively low. These disparities increased visibly once reforms started and especially differentiated the capital-city regions from all the other regions in the area. Also, there is a powerful tendency towards central and peripheral polarization and a clear differentiation between the Western and Eastern regions. In Romania, regional disparities are comparable with those in the Czech Republic, Slovakia, Hungary or Bulgaria and have the same characteristics of polarization and East-West divide.

Table 2. Relative and absolute interregional disparities, 2003

Country	Max GDP regions	GDP /capita PPS (EU25=100)	Min GDP regions	GDP /capita PPS (EU25=100)	Absolute interregional disparities	Relative interregional disparities
Bulgaria	Yugozapaden	43,0	Severen Tsentralen	24,2	18,8	1,8
Poland	Mazowieckie	72,8	Lubelskie	33,2	39,6	2,2
Czech Republic	Praha	138,2	Moravskoslezsko	53,4	84,8	2,6
Romania	Bucureşti	57,9	Nord-Est	21,7	36,2	2,7
Slovakia	Bratislavský kraj	115,9	Východné Slovensko	38,8	77,1	2,9
Hungary	Kozep – Magyaroszag	94,9	Eszak – Magyarorszag	38,1	56,8	2,5

Source: Romanian Regional Operational Plan

Compared with the older member states, Romania and Bulgaria are by far less developed. In 2004, the fifteen lowest regions in the EU were almost all in Bulgaria and Romania, with the lowest figures recorded in Nord-Est in Romania (24% of the average), followed by Severozapaden, Yuzhen tsentralen and Severen tsentralen in Bulgaria (all 26%).

Compared to 2004 accession countries, Romania and Bulgaria are somewhat closer: among the 70 regions below the 75% level, fifteen are in Poland, eight in Romania, seven in the Czech Republic, six each in Bulgaria and Hungary, one region in Spain, Estonia, Latvia, Lithuania and Malta (in interpreting this data one should also consider the size of the countries in question).

Regional GDP per inhabitant in the EU27 in 2004
(In PPS, EU27 = 100)

The fifteen highest:			The fifteen lowest:		
1	Inner London (UK)	303	1	Nord-Est (RO)	24
2	Luxembourg (LU)	251	2	Severozapaden (BG)	26
3	Bruxelles-Cap. / Brussels Hfdst. (BE)	248	3	Yuzhen tsentralen (BG)	26
4	Hamburg (DE)	195	4	Severen tsentralen (BG)	26
5	Wien (AT)	180	5	Sud-Muntenia (RO)	28
6	Île de France (FR)	175	6	Sud-Vest Oltenia (RO)	29
7	Berkshire, Buckinghamshire & Oxfordshire (UK)	174	7	Severoiztochen (BG)	29
8	Oberbayern (DE)	169	8	Yugoiztochen (BG)	30
9	Stockholm (SE)	166	9	Sud-Est (RO)	31
10	Utrecht (NL)	158	10	Nord-Vest (RO)	33
11	Darmstadt (DE)	157	11	Lubelskie (PL)	35
12	Praha (CZ)	157	12	Podkarpackie (PL)	35
13	Southern & Eastern (IE)	157	13	Centru (RO)	35
14	Bremen (DE)	156	14	Podlaskie (PL)	38
15	North Eastern Scotland (UK)	154	15	Vest (RO)	39

Source: Eurostat, 23/2007 - 19 February 2007

In the evaluation of the regional structure on the level of NUTS 2, this finding of a dominancy of the center is most significantly the case in the central regions of Slovakia and the Czech Republic [4]. In the case of Slovakia, the economic level of Bratislava is three times higher (measured on the basis of GDP/per capita in PPP) than the value of the least developed Region (Vychodne Slovensko) and 2.4 times higher than the value of the second most developed Region (Zapadne Slovensko). The level of Prague is more than 2.5 times higher than the level of the least developed Region of the Czech Republic. Estonia, Lithuania, Latvia and Slovenia represent separate regions of NUTS 2, but if we consider the regional level NUTS 3, we can claim that even here the central regions considerably exceed the national average in terms of economic development.
The development of Budapest is striking compared to the rest of the country. While only 17% of the population lives in Budapest, it accounts for about a third of the total gross domestic product.
With a continuous economic growth over the last 10 years, the Bucureşti-Ilfov region in Romania is twice above the national average GDP/capita, while the Nord-Est region is only at about 60% of the national average.
It is true that the capital cities acted as engines for growth, serving as a catalyst for the development of surrounding rural communities [5]. The capital city regions of the Czech Republic, Hungary, Slovakia, Estonia and Latvia play the most dominant core roles. In all of these countries, there is no centre that could rival the capital city. In the Czech Republic the disparity between Prague (which, in 2000, had already reached a level of 133% of the average EU-25 GDP per capita, see European Commission, 2003a) and the remainder of the country is still increasing. The same is true for Bucharest and Sofia.
As mentioned, a common feature of the regional differentiation of the new Member States is the higher level of development of Western areas, which are situated near the markets of the developed EU Member States. Due to this proximity, they can profit from the higher inflow of Foreign Direct Investment (FDI), and from Western markets being easier available compared to the peripheral Eastern regions. An example of the West-East dichotomy is Slovakia, where this phenomenon is highlighted by the concentration of capital in the Western part of the country due to the proximity with Vienna.
In Romania, the regions bordering Hungary to the West are among the most developed (Vest, Nord-Vest) with a high share of FDI (between 6 and 7,4% of the total in 2005), unlike the regions bordering Ukraine and Moldova to the East, which are still under severe recession (Nord - Est).
The areas on the Eastern boundaries of Russia, Belarus, Ukraine, Moldova, Serbia, and Croatia are significantly less attractive from the point of view of foreign investors. The typical examples of underdeveloped regions are the Eastern part of Slovakia (Vychodne Slovensko) and Hungary (Eszak-Magyarország) as well as the areas of Eastern Poland (Podkarpatskie, Podlaskie, Lubelskie and Warminsko- Mazurskie). Here, the proportion of employment in agriculture exceeds 30% and, moreover, there is only a low development of economic activity in industry and services, which leads to a concentration of employment in the agricultural sector and adds to the low productivity rate.

Considering the above, we can conclude that the regional disparities in Romania, Bulgaria and the other new member states are relatively similar. They all show an East -West divide, as well as a center-periphery differentiation. In all the countries, the capital-city regions are significantly more developed than the other regions. There are a number of areas which are typical by their own specific difficulties. Such areas include, for example, structural types with insufficiently diversified and outdated economic structure combined with underdeveloped technical infrastructure and a high share of problematic population, areas affected by the conversion of industry and a loss of internal markets, border-near regions and regions orientated primarily on agriculture, regions affected by the decline of mining and construction industry, etc. Other types of problematic areas, based on the level of poverty, socio-demographic problems, socio-spatial problems etc. could be identified as well.

The factors that determined the regional disparities within the new member states, as well as within Romania and Bulgaria, are similar: **geographical location and accessibility** (regions near the EU border, Nyugat-Dunántúl a Közép-Dunántúl in Hungary, Wielkopolskie, Pomorskie, Dolnoslaskie, Lubuskieand Slaskie in Poland, Vest region in Romania have higher accessibility and a good infrastructure and can be considered the "winners", while the regions at the periphery, usually with weak accessibility are the "losers"), **economic structure** (the employment rate in agriculture and industry is still substantially high in the regions of the new EU Member States). Regions like Slazskie in Poland, Eszak-Magyarország in Hungary, Moravskoslezsko in the Czech Republic or Centru region in Romania still have a great deal of mining and heavy industry which have dramatically dropped in production leading to a great reduction in job opportunities. Other underdeveloped areas are the **agricultural regions**, among others Del-Alfold in Hungary and the Lubelskie, Podkarpackie, Podlaskie and Swietokrzyskie Regions in East Poland or Sud in Romania), **foreign direct investment** (in Hungary 65% of the total foreign investment in the 1990s went to the Kozep-Magyarorszag region, in Slovakia 60% of foreign investment went to the Bratislava region, 24% of the total number of foreign businesses in Poland are situated in the central region of Mazowieckie, 60% of the total FDI in 2005 went to the Bucharest-Ilfov region in Romania etc.)

Growing empirical evidence points to one type of winner and to two types of losers among the accession countries' regions: in this simplified dichotomy, the metropolitan and urban areas (namely the capital city regions) belong to the former group, the rural and old (declining) industrial areas as well as those in the Eastern peripheries belong to the latter group.

The regions bordering the EU have developed very dynamically in Hungary and Slovakia (where the region bordering the EU is at the same time the capital city region), but much less so in other transition countries. In Hungary, all these regional patterns of transformation into a market economy became evident quite soon after the transition process had set in.

Looking at the distribution of FDI across Eastern Europe [6], there seems to be clear evidence that the regions closer to Western Europe obtain the larger share of FDI. Western regions in Poland, the Czech Republic, and Hungary have higher FDI-intensities than the eastern parts of Eastern Europe. The only exception from this pattern would be Latvia with a very high FDI-intensity despite its distance to the richer areas of the European economy. In Eastern Europe, FDI is much more concentrated in manufacturing; almost 60 per cent of total FDI can be found in this sector and a far smaller share than the European average is observed in the area of business services.

Romania has a leading role in attracting FDI in Eastern Europe. In 2005, out of the total EUR 10.4 billion in FDI attracted by countries in the region, Romania received half of these inflows. The positive trend continued in 2006, where, in the first four months of the year, FDI increased 130% over the similar period of the previous year, up to EUR 2.3 billion. Comparatively, Poland reported EUR 2.7 billion as direct foreign investment over the same period, Bulgaria EUR 765 million and the Czech Republic, EUR 564 million.

Foreign direct investment into Eastern Europe hit a record US$112bn in 2006, putting the region ahead of Latin America and second only to Asia among emerging markets. Privatization was again a prominent driver. Moreover, there is little evidence yet that EU enlargement is sparking a massive relocation of production within Europe, from West to East [8].

Two CEE economies in the region were among the ten emerging market FDI recipients in 2006: Poland (8th) and Romania (10th). The US$112bn total inflows represented almost 5% of the transition region's GDP, the highest ratio achieved thus far.

The 2006 increase in FDI inflows affected all transition sub-regions and most economies in the area. For a large number of countries — Poland, Romania, Hungary, Slovakia, Bulgaria, Latvia, Lithuania — the 2006 inflows represented a record total. The growth in FDI inflows was the result of large-scale privatization sales in some countries; growth in reinvested earnings, as well as a real-estate boom in many new EU member states.

FDI inflows into Poland reached US$13.9bn in 2006, a 45% increase on 2005. Unlike in most other high-FDI recipient countries in the region, Poland's total owed little to privatizations in 2006. The ongoing real-estate boom underpinned much of the increase in FDI, as did an increase in reinvested earnings, indicating growing confidence in the Polish economy. The large US$10.3bn inflow into Hungary was boosted only to a limited extent by large deals such as the US$1.3bn acquisition of MOL's natural gas storage and wholesale trading businesses by Germany's E.On.

Elsewhere, large privatization deals accounted for a significant portion of FDI inflows in 2006. Fast-growing Romania attracted inflows of US$11.4bn in 2006. Some US$2.8bn of the total was based on the purchase by Austria's Erste Bank of a stake in the country's largest bank, Banca Comercială Română. Slovakia's FDI inflow of almost US$4bn in 2006 partly reflected privatization inflows from the sale of the power generator Slovenske elektrarne (SE) to Enel (Italy). In Lithuania the US$1.8bn inflow in 2006 was boosted by the sale of the government's stake in the oil complex Mazeikiu Nafta to Poland's PKN Orlen for US$852m.

Short comparison between the Romanian regions of development

Similarly to the other new member states, Romanian regions are tributary to their historical development, to the factor endowment and to their geographical positioning.

The Nord -Est and Est regions, bordering Moldova and Ukraine, are among the least developed, in opposition to the Vest and Nord-Vest, bordering Hungary, which are, except Bucharest, the most dynamic. An oversized, underproductive agricultural sector is also cause for lack of development. This is the case of the Nord-Est, Sud and Sud-Vest regions. The Nord-Est and the Sud-Vest are the least developed regions in the entire EU-27.

Foreign direct investment greatly boosted economic growth in the regions where they occurred. It is the case of Nord-Vest, Vest and Centru, and especially the case of Bucureşti-Ilfov, which attracted 60,6% of the total FDI in Romania (15.040 million euros until 2005). Another favorite destination for FDI was the port of Constanța, in the Sud-Est region. Unfortunately, many FDI in the Eastern part of the country are lohn operations, based on low labor costs and are not sustainable on the long term.

Taking into consideration the SMEs densitity, 20,38 SMEs/1000 inhabitants, Romania is ranked lower than Bulgaria (27,6 SMEs/1000 inhabitants), or the Czech Republic, Slovakia, Hungary or Poland (42,3 SMEs/1000 inhabitants).

SMEs are predominant in the Romanian economy, representing 99,5% of the total enterprises. Again, Bucureşti-Ilfov has the highest number of SMEs / 1000 inhabitants - 46,51 -, which is over three times more than the lowest ranking region - Nord-Est. The low level of entrepreneurship is strictly linked to the predominance of rural areas, low skilled workers, low degree of urbanization and a high level of migration abroad [8].

Another upsetting phenomenon is the population ageing that affects the southern and western regions. Doubled by the emigration of a large number of people, this can pose a threat to the future development, as the lack of labor force in certain specific sectors is already felt. As source regions for labor migration we can mention Nord-Est, Sud-Est, Sud, Sud-Vest and Nord-Vest, which are also less developed than the other regions. (Vest, Centru, Bucureşti-Ilfov). As internal migration is concerned, Bucureşti-Ilfov is the main recipient of migration flows, while the source regions remain the same.

The unemployment rate in Romania is officially 5,9% in 2005, which is fairly low. However, this refers only to the registered unemployed people and is artificially decreasing as more and more people are choosing to work abroad (about 2 million persons).

Table 3. Regional employment rate, by economic sector, in 2005

Sector	Nord-Est	Sud-Est	Sud	Sud-Vest	Vest	Nord-Vest	Centru	Bucureşti-Ilfov	Country level
Agriculture (%)	48,4	33,3	37,8	48,9	20,7	29,9	19,0	1,6	32,2
Industry and constructions (%)	23,4	27,3	31,3	23,9	40,3	32,1	41,1	30,5	30,3
Services (%)	28,2	39,4	30,9	27,2	39,0	38,0	39,9	67,9	37,5

Source: Romanian Statiscal Office

At a regional level, the employment rate is above the national average in agriculture intensive regions, as well as in Bucureşti-Ilfov (but due to completely different reasons, like a dynamic and diversified labor supply). Regions undergoing structural changes have lower employment rates.

One of the causes for regional disparities is given by the different degree of accessibility of the regions. Transport infrastructure is deficient in the entire country but some regions are more developed than others. The Bucureşti-Ilfov region is the most developed, while the Nord-Est is the least developed.

The development of the Romanian regions can be synthesized in the following table:

Table 4. Synthesis of Romanian regions indicators (national average = 100)

Region	GDP /capita	Unemployment rate	FDI /capita	SMEs /1000 inhabitants	Public road infrastructure /100 km2 (Romania =33.5)	Rural population
Nord-Est	69,2	115,2	7,7	64,5	36.3	125,5
Sud-Est	90,7	108,5	63,8	91,4	30.4	98,7
Sud	83,4	123,7	41,2	67,7	34.8	129,3
Sud-Vest	83,3	125,4	31,9	70,2	35.8	116,4
Vest	114,7	86,4	76,3	105,7	32.1	80,7
Nord-Vest	97,2	67,8	45,4	109,0	34.7	104,0
Centru	104,2	123,7	62,9	105,7	29.9	88,9
Bucureşti-Ilfov	191,5	40,7	593,5	228,2	47.9	21,1

Thus, keeping the dichotomy mentioned in the previous sections of the paper, there are three types of regions: winners, laggards and losers:

Winners: Bucureşti-Ilfov and to a certain extent, the Vest region, due to its development potential. These regions are characterized by the existence of very strong and dynamic urban centers, are traditionally developed areas. They have the highest rates of FDI per capita and the most dynamic labor markets and entrepreneurial environments. They are both well known high education centers and are destinations for people from the entire country, due to the opportunities that are encountered here. Even more, they benefit from a high degree of accessibility. At the same time, the economic activity is more oriented towards industry and services than agriculture. The Vest region also benefits greatly from its proximity with Hungary.

Laggards: Centru, Nord-Vest and Sud-Est regions. They approach the national average in terms of GDP/capita and are recovering from a series of structural shocks that greatly increased the unemployment rate and decreased the economic activity. Accessibility is fairly limited in these regions, and they would be best described as lacking opportunities. Normally, the Sud-Est region should be included in the losers category, but due to the tourism activities that are beginning to pick up in the Danube Delta and at the Black Sea resorts, we can include it in this category. Even more, the Constanța is an important urban centre and one of the most important trade ports in South-East Europe.

Losers: Nord-Est, Sud and Sud-Vest are the least developed regions. The predominance of agricultural activities and the low level of investment in the re-conversion of the areas have left there regions outside the main trend of powerful economic growth.

Perspectives for a reform of the cohesion policy – options for Romania

As seen from above, the problems of the Romanian regions are structurally different and even though as a group they are the least developed in the EU, at country level they do not share the same degree of "backwardness".

The most developed regions - București-Ilfov and Vest are well above the country average, but are radically lagging behind the other regions in the European Union, with all the structural indicators (GDP and income, productivity, employment etc.). Accessibility is also low, innovation activities are unsatisfactory and investments are insufficient. However, these regions, seen as disadvantaged from the European point of view, are rather prosperous in the national context and still have a significant growth potential.

On the other hand, there are regions like the Nord-Est or Sud-Vest, that have a rather low level of economic development, but that also face other structural deficiencies such as high unemployment, low rates of employment or ageing populations. These regions suffer from economic poverty resulting from a lack of basic infrastructure, restricted access to public services and high unemployment and are becoming depopulated at a faster rate than other regions.

During the next years, Romania will benefit form substantial EU-funding aimed at reducing the disparities between its regions and at the same time, at bringing the whole country closer to the EU level. Judging from the experience of the former cohesion countries, namely Spain, Portugal, Greece and Ireland, these objectives are not easily attainable, and a mere infusion of Community funds will not automatically solve the structural problems confronting the less developed regions.

At the same time, it is important to keep in mind the fact that the European Union itself is questioning the efficiency of the regional policy distribution mechanisms and is planning on shifting from the current practices towards a more competitive system.

Considering the above, and the fact that all Romanian regions, more or less developed, currently qualify for receiving financial aid, it is important to have a clear image, at national level, over the future of the EU regional policy and at the same time, over the future of the regional development in Romania.

It is not possible to effectively implement the policy without a precise evaluation of the location of territorial imbalances. These, in turn, require a careful formulation of hypotheses about the driving forces and trends that influence the reduction or increase in territorial disparities. A territorially differentiated type of Regional policy would ensure that regions get a fairer distribution of financial support and also a higher uptake of the Community money. Currently, funding for cohesion has reached a historical height but the situation is already doomed to change for the next programming period if the beneficiary countries can't prove that their efficient and effective use. In the light of this, Romania has only one option for the future: to concentrate on the uptake of as many funds as possible and at the same time to accentuate the need for these funds, by bringing forward the success stories and good results obtained.

It is very probable that the actual situation of Regional policy where the majority of funding is allocated on the basis of reference to a single and indeed highly debatable parameter (GDP per capita) with a unique threshold (75% of European average) will be abandoned, in favor of a more complex system of evaluation. This can be both a threat for Romanian regions, as they benefited from the current system, and an opportunity, if the implementation of the regional policy in Romania is built proactively and directed towards improving competitiveness. In that sense, the inclusion of various dimensions in the design of Regional policy would make it a more efficient tool in the achievement of territorial cohesion and would also benefit Romanian regions.

At country level, it is important to speed up economic growth in the poorest regions as an essential precondition for achieving and sustaining high standards of living in the Union. There is, however, a risk that policy impacts will be diminished if regions that are facing development difficulties keep lagging behind, thus deferring an increasing volume of costs. That is why, the specific needs of the poorest regions must be identified and appropriate means need to be found to boost their development by making use of their natural resources, cultural assets and environment, while also paying due attention to their protection and development. The fundamental requirement is to establish what the main needs of each region are and to focus funding on the right objectives.

It becomes obvious that the less developed regions should get more support from Regional policy than the better performing, at least for the development of a basic infrastructure and for the establishment of a network of basic services for the population. On the long run, the focus should be placed on developing a policy that promotes entrepreneurship and protects the population base of such regions, with a view to achieving genuine growth and to reversing the downward growth spiral.

For the more developed regions, it is important to provide support for attracting investments and for further promoting entrepreneurship, in order to achieve their whole growth potential. Investment in technology and innovation, as well as in the formation of a valuable human capital is essential in order to keep the upward spiral.

There should not be a contradiction between competitiveness and the goal of cohesion; however, it is essential to understand in which circumstances the leverage effect boosts growth. To reach a given level of competitiveness poor regions need to have sufficiently developed basic infrastructure. To maintain their competitiveness, more developed regions must respond proactively to the challenges and continuously adapt to changes.

Economic development is closely connected to **innovation**, which is a key factor in regional development. EU cohesion policy must, under the Lisbon Strategy, be directed towards increasing the EU's innovation capacity and it is therefore important for the poorest regions not to be overlooked in efforts to reach this goal. Romanian regions are likely to be the most vulnerable in this respect so considerable efforts should be made at national, regional and local level, to promote research and take up of new technologies.

Active support for entrepreneurship is also important for sustainable development and this objective calls for the involvement of all stakeholders. Entrepreneurship should be promoted along with the objective of social inclusion, especially of women and young people.

In order to solve the problems with which the poorest EU regions are struggling, a balanced programme tailored to their specific features is required. Authorities responsible for formulating multiannual plans should pay attention first and foremost to the sustainability of the projects carried out and their impact on regional development. Priority should be given to projects relating to regional accessibility and, thereby, transport and IT & telecoms infrastructure. The creation of a platform based on appropriate economic incentives will increase a region's attractiveness to investors and bring sustainable economic growth that will helps to reduce development disparities.

ITC – a possible solution

The issue of RDI has gained importance recently, as Romania approaches EU integration and tries to position itself within the Lisbon agenda. The current situation is far from the EU targets. Romania has total expenditures on R&D close to 0.4% of GDP, as against the 1.9% current EU-25 performance and the 3% target set for 2010.

Out of it, 61% is business expenditure (OECD, 2004). The European Trend Chart on Innovation summarizes generally known factors that contribute to an under-developed innovation culture in Romania:

- low RDI expenditure in enterprises, insufficient to support advanced research;
- the absence of a competitive environment caused by incomplete economic restructuring;
- enterprises' reluctance to take on financial and commercial risks arising from R&D and the absence of financial services and instruments to mitigate the risk;
- the current type of competitiveness based on wage differentials versus the innovation driven type of economies to which Romania is trying to converge.

The distribution of the R&D activity at firm level by regions reflects the general view about more and less developed region. Most R&D departments can be found with firms located in Bucharest (68,8%), West(61,1%) and North West (60,0%) regions, while least R&D departments are in South –West (50%), South-East (43,8%) and Centre (41,4%) regions [9].

It is important to note that funding R&D from own resources does not benefit from any incentive in Romania. No indirect financial measures support firms' investment in R&D. State support for business expenditures on R&D is also very limited: only 2.4% of companies obtained public funds for R&D, and these were also very limited, as the total R&D state aid in Romania has never exceeded 20 million Euros (0.003% of GDP). Free market support for R&D investments was also low: 3.5% of firms obtained loans for their R&D activity. The European Innovation Scoreboard (2004) indicates that hi-tech venture capital is practically non-existent, while the early stage venture capital is only 10% of the EU average).

However, in more than one occasion, the European Union has stressed the importance of research and innovation activities for supporting competitiveness and growth.

Current Structural Fund support for R & I falls into four types of activities: research projects based in universities and research institutes; R & I infrastructure such as public facilities, technology transfer centers and incubators; innovation and technology transfer as well as the setting-up of networks and partnerships between businesses and/or research centers.

Romania could benefit from the Community programs that promote these fields for boosting its research potential and for stimulating growth and jobs. This might be one of the only opportunities for Romania to accelerate the process of convergence and to "burn" some development stages. Taking into account that already the greatest asset necessary - a highly educated and capable workforce - already exists, further programs should be aimed at preventing "brain drain" and at utilizing its full potential for stimulating RD activities.

Conclusion

The problems of the Romanian regions are structurally different and even though as a group they are the least developed in the EU, at country level they do not share the same degree of "backwardness". Thus, it is important to have a differentiated approach to regional development, in order to meet the different needs of each region.

It becomes obvious that the less developed regions should get more support from Regional policy than the better performing, at least for the development of a basic infrastructure and for the establishment of a network of basic services for the population. On the long run, the focus should be placed on developing a policy that promotes entrepreneurship and protects the population base of such regions, with a view to achieving genuine growth and to reversing the downward growth spiral.

For the more developed regions, it is important to provide support for attracting investments and for further promoting entrepreneurship, in order to achieve their whole growth potential. Investment in technology and innovation, as well as in the formation of a valuable human capital is essential in order to keep the upward spiral.

There should not be a contradiction between competitiveness and the goal of cohesion; however, it is essential to understand in which circumstances the leverage effect boosts growth. To reach a given level of competitiveness poor regions need to have sufficiently developed basic infrastructure. To maintain their competitiveness, more developed regions must respond proactively to the challenges and continuously adapt to changes. In this context, innovation is closely linked to economic growth and should be viewed as a means of catching up the more developed regions of the older member states.

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