

## ROMANIA'S PRESENT SITUATION CONCERNING COHESION AND COMPETITIVITY PROBLEMS IN COMPARISON WITH EU MEMBERS

Oana DAVID<sup>1</sup>, Ana Maria NEAGU<sup>2</sup>

*Lucrarea încearcă să prezinte situația actuală a României privind problemele de coeziune și competitivitate în raport cu țările membre ale Uniunii Europene pe baza indicatorilor PIB ajustat la paritatea puterii de cumpărare, PIB/persoană la paritatea puterii de cumpărare și metoda Atlas a comparațiilor internaționale, indicele dezvoltării umane elaborat de Programul Națiunilor Unite pentru dezvoltare (PNUD) și un indice al competitivității, mai exact cel al competitivității globale elaborat de World Economic Forum, ceea ce reprezintă o realitate cu care se confruntă țara noastră.*

*This paper outlines Romania's present situation concerning cohesion and competitiveness problems in report with EU members based on the GDP - fitting the parity of the spending power, the GDP to per capita, in terms of parity of the purchase power and of the Atlas method of international comparisons, the index of human development (IDH) elaborated by the Program of the United Nations for the Development (the PNUD) and a competitiveness index, precisely the one of "Global Competitiveness" elaborated by the World Economic Forum, which is a reality specific to our country.*

**Keywords:** cohesion, competitiveness, cohesion policy, gross intern product, global competitiveness

### 1. Romanian's situation reported to European Union's countries

We analyze the present situation of our country from the point of view of the competitiveness and cohesion. We use the statistical information presented in the recommended bibliography. A few indicators of the European Union countries are presented bellow for comparison:

1. the GDP – fitted to the parity of the spending power used as indicator of the dimension of the economy;
2. the GDP per capita, in terms of parity of the purchase power and of the Atlas method of international comparisons (according to the methodology of the World Bank in both cases);

<sup>1</sup> Lector PhD., Depart. of Management, University "Politehnica" of Bucharest, ROMANIA

<sup>2</sup> Asist., Depart. of Management, University "Politehnica" of Bucharest, ROMANIA

3. the index of human development (IDH) elaborated by the Program of the United Nations for the Development (the PNUD), which shows additional qualitative aspects next to the economic ones;
4. Competitiveness index, specifically the one of "Global Competitiveness", elaborated within the framework of the World Economic Forum.

Each one of these indicators transmits a partial information, but complementary to the one of the others, so that their joint examination allows the formulation of a conclusion concerning the level of income, development and competitiveness in the European countries. By taking into account the degree of heterogeneity, we can judge the difficulty of cohesion policies.

*Table 1*  
**Gross domestic product 2005 at terms of parity of the purchase power (in thousands of million international dollars)**

UE 27		Rest Europe	
Luxembourg	2417	Russia	1559
France	1829	Turkey	612
Italy	1667	Ukraine	320
Spain	1133	Switzerland	255
Sweden	280	Norway	185
Austria	276	Albania	58
Greece	261	Macedonia	16
Czech Republic	217	Moldavia	14
Romania	199		
Hungary	182		
Slovakia	88		
Bulgaria	68		
Slovenia	44		

Source: World Bank, World Development Indicators Database, 1 July 2006

After we analyzed the data from the table, we were able to say that, from the point of view of GDP's evolution during last years, Romania is on an ascending line, in front of Bulgaria, but for the moment to a great distance as compared to the media of EU countries.

In this moment, there are 116 million inhabitants in regions where GDP per inhabitant is less than 75% out of the European average. In EU 27 will be 150 million inhabitants in regions with GDP per inhabitant less than 75% of the European average and six from ten inhabitants will be from new member states. The gulf of development between the rich regions and those less prosperous will multiply with 1,4.

The problems of competitiveness, sustainable development, economic and social reshaping will be meaningful in all member states, especially at the regional level than to the national one.

The indicator of innovation capacity will oscillate at the regional level between 1 and 95, and the percent of those who work in high technology sector will be somewhere between 1 and 5. This situation will lead to a deficit of competitiveness in the European Union regions, which will force the cohesion policy to distribute the community support funds according to the development level of each region.

**Gross national rent per capita in 2005 - Atlas Method (in dollars)**

UE 27		Rest Europe	
Luxembourg	65630	Russia	4460
France	34810	Turkey	4710
Italy	3010	Ukraine	1520
Spain	25360	Switzerland	54930
Sweden	41060	Norway	59590
Austria	36980	Albania	2580
Greece	19670	Macedonia	2830
Czech Republic	10710	Moldavia	880
Romania	3830		
Hungary	1030		
Slovakia	7950		
Bulgaria	3450		
Slovenia	17350		

Source: World Bank, World Development Indicators database, 1 July 2006

The economic conditions of the enlargement process of EU towards East are characterized by important disparities of income per inhabitant (see Table 2) between the present member countries of European Union and the future partners, phenomenon which can be explained by endowment with factors of production and differences in productivity of these factors.

In the cohesion problem and its relation with competitiveness we can advance some conclusions based on the following indicators: the Global Competitiveness Index and the Human Development Index.

**Global Competitiveness Index 2005**

UE 27		Rest Europe	
Luxembourg	5,04	Russia	4,10
France	5,39	Turkey	3,94
Italy	4,47	Ukraine	3,97
Spain	4,80	Switzerland	5,67
Sweden	5,55	Norway	5,31
Austria	5,34	Albania	3,40
Greece	4,28	Macedonia	3,84
Czech Republic	4,76	Moldavia	3,57

Romania	3,98		
Hungary	4,50		
Slovakia	4,48		
Bulgaria	4,04		
Slovenia	4,62		

Source: Global Competitiveness report 2005-2006, World Economic Forum, Palgrave 2005

From the point of view of competitiveness, Romania is on the last place as compared with the member countries of European Union. Some strategies, which can improve this position of competitiveness are:

- improving the productivity at the macroeconomic level;
- increase the productivity at the microeconomic level;
- supporting the innovation and the development of technology;
- improving the business environment;
- support and encourage national companies to sell on the international markets.

The human development index is the indicator, which can supply useful information related to the investment degree in human capital, the capacity to assimilate new knowledge, living level, future tendencies of human resources as the main factor of economic development of a country.

The situation of Romania as compared with the other countries is presented in the next table:

Table 4

**Index of Human Development to Romania (data referred to 2003)**

	Romania	Regional medium	Medium of the countries in course of development
IDU	0,792	0,806	0,697

As we can see, the IDU for Romania is part of the average data of the region, but we have to say that Romania is on the last place of the 27 member countries of European Union, even after Bulgaria.

This situation leads to the idea that on the medium and long term Romania will not have a very spectacular evolution from the point of view of innovation and development of human capital.

As probably everyone can anticipate, the present situation of Romania from the point of view of a compromise between competitiveness and social cohesion is delicate enough, in the way that there are some more developed areas (centers), which sustain the less development regions, but which don't have enough power to maintain the competitiveness and to redistribute the cohesion to other zones. The most viable solution in this situation can be the cohesion policy of the European Union.

## **2. Cohesion policy proposed for 2007-2013 for Romania**

To find the analytical and political background to the structural or cohesion policies, it would be enough only to affirm that one of the amplest debates in economy is, on one hand, the dynamics of the markets regarding the economic growth and, on the other, the convergence and divergence between the territorial units participant on these ever larger markets.

The perception according to which even if the added effects of the opening processes or global and/or regional integration would be positive, their zonal, territorial, social and personal redistribution can show the first signs of inequality, would force us to raise the following question: are there the policies or strategies with intervention of the public powers to compensate or to resist the dynamics of possible divergences needed?

If the result of the analysis would be an optimistic one, then the effectiveness of the integration policies, which supports creating prosperity, would be limited.

But if the presence of generating disparities mechanisms is observed, it would be better to analyse the costs effectiveness, in terms of growth and prosperity to the receiving territories, which would depend on its application, the complementary policies which can guarantee the multiplying effects of the transferred resources, and especially on medium and long term, the effects related to the dynamics of investments, enterprises and beneficiaries' productiveness.

In the following lines, we present a summary of different opinions about the cohesion mechanisms of European Union based on the recent experiences and perspectives.

The administration of cohesion problem became more ample as the number of member countries of European Union has grown and because this led to a growing number of regions affected by the integration process.

The introduction of the Treaty of Rome (1957) refers to the necessity "to reinforce the economies and to assure harmonious development, reducing the differences between regions".

The European Unique Act - which creates the Unique Market in the European Union - and later the Treaty of the European Union (well known as the Maastricht Agreement, which establishes, among other dispositions, the economic and monetary union) incorporates the cohesion, seen as an objective of the European Union, at the level of the unique market and the monetary union.

At the nineties this policies have absolved already a third of EU resources – being a complementary measure to other policies at national level.

The cohesion reports, such as the ones from 2001 and, especially, from 2004, estimate that effects of these policies are generally benefic but they also admit that the results are modest.

The European Commission published strategic lines for 2007-2013 related to “Cohesion policies to support enrolment growth”.

Through Inter-Institutional Agreement signed in May 2006 by The European Parliament, Europe Council and European Commission regarding the 2007-2013 financial perspectives have been started actions regarding cohesion policies.

In the spirit of the agreement cited the 2007-2013 financial perspectives, the cohesion policies develop from 32,1% in 2006 at 35,7% in the scenario of 2013. The other policies that are developed are related with the concept of competitiveness who passes from 6,6% at 9,9% from the EU budget.

Total amount of these funds which are destined in these proposals is 862.400 million euro (1,045% of EU GDP) - assuming that the cohesion policies for growth and application have a value of 307.600 million euro (0,37% of EU GDP). From these resources the convergence process has 251.500 million euros, regional competitiveness 48.800 million euros and European cooperation 7.500 millions euro. The table 5 presents the assessment of funds allocation in member states, funds of cohesion policies.

*Table 5*  
**The distribution of funds between countries in the cohesion policies of the European Union (2007-2013)**

Country	Million dollars
Belgium	2019
Denmark	545
Germany	23450
France	12736
Austria	1301
Finland	1532
Sweden	1682
Ireland	815
Italy	25647
Greece	18217
Spain	31546
Poland	59698
Hungary	22451
Czech Republic	23697
Slovakia	10264
Slovenia	3739
Estonia	3058
Latvia	4090
Lithuania	6097
Malta	781
Bulgaria	6047
Romania	16386

Source: The European Commission, General Direction of regional policy, January 2006

The allocation criteria's are formed through eligible parameters. According to the fourth cohesion report regarding cohesion policies from July 2006 for regions where GDP per inhabitant is less than 75% out of the European average which represents 100 regions and 37% of EU 27 population even though GDP represents only 12,5% out of the EU GDP's.

*Table 6*  
**The view of the structural appliances distribution for 2007-2013 to Romania**

2007	2008	2009	2010	2011	2012	2013	Total
1,399	1,972	2,603	2,603	2,603	2,603	2,603	16386

Of which:

- the structural funds finance maximum 85% of eligible expenditure.
- the cohesion funds finance maximum 80% of eligible expenditure.

The projects are orientated to sectors such as transportation, accessibility, substructure, human resources, energy, environment, research and innovation.

The European Commission estimation refers to some gains' expectancy in terms of economic growth of 10% in most of member countries (9,8 Poland and more for Baltic countries) Czech Republic and Slovakia have a productivity growth of 2,3 and for Romania, Bulgaria 7%. Positive effects on the labor market are estimated at 2,5 millions of new jobs.

Table 7 outlines the results of European Commission at the simulation drawn for some countries dividing the impact in GDP terms and productivity.

*Table 7*  
**The impact of the cohesion policies in the EU for 2007-2013 based on Hermin Model 2005**

Country	The impact at the GDP for 2013	The impact at the productivity for 2013
Czech Republic	10,9	2,3
Hungary	8,4	4,1
Poland	9,8	5,7
Estonia	11,4	5,8
Latvia	12,4	6,1
Bulgaria - Romania	11,8	7,0
Portugal	2,8	1,7
Greece	1,2	0,5

Source: Global Competitiveness report 2005-2006, World Economic Forum, Palgrave 2005

We can analyze the scenario for 2013, the case of Romania as one more than positive. Concerning the GDP's evolution for 2013 Romania and Bulgaria are estimated with the second greatest growth rate of GDP-11,8% of the last countries. In addition, concerning the productivity growth, they are first ones with 7% so the most influence in productivity.

Future trends are encouraging for Romania and the efficiency of cohesion policies it is gladdening for our country.

#### BIBLIOGRAPHY

- [1]. *O. Blanchard*, The economic future of Europe, Journal of Economic Perspectives, 2004, p.3-26.
- [2]. *J. Helliwell*, Well-being, social capital, and public policy: what's new?, NBER working paper 11807, 2005.
- [3]. \*\*\*, "Global Competitiveness report 2005-2006, World Economic Forum, Palgrave, 2005.
- [4]. *World Bank*, World Development Indicators Database, 1 July 2006.
- [5]. *BCE*, Evoluția productivității și a forței de muncă în zona euro, Buletinul lunar, July 2004, p.49-60.
- [6]. *BCE*, Politica Monetară și diferențialele de inflație într-o zonă monetară heterogenă, Buletinul lunar, May 2005, p.63-80.
- [7]. *World Bank*, World Development Report 2006: Equity and Development, World Bank, 2005 (on [www.worldbank.org](http://www.worldbank.org)).
- [8]. [www.europa.eu](http://www.europa.eu).