

THE E.U. REGIONAL POLICY AND THE ECONOMIC DEVELOPMENT

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Abstract:

The purpose of this paper is to reveal some aspects regarding the evolution of disparities in the European Union, the absorption of the Structural Funds in 2007-2013 period and the regional policy effects. EU expanded in the latest decades, having now regions with different level of development, so that is why economic disparities became higher in the EU. In order minimize them and to consolidate the regional competitive capacity, the regional development policy gained more importance and more funds were allocated to it. The bigger part of these Structural Funds are designated to less developed regions. For 2007-2013 period, the level of the funds absorption is different for the EU countries, as well as the growth of GDP. In the EU, more than a quarter of the regions are less developed with a GDP/inhabitant expressed in Purchasing Power Standard < 75% of EU average, but there are less (almost 7%) regions with GDP under 50% of the EU-28 average than 10 years ago, as a result of the regional development policy that contribute to the decrease of the disparities. EU adhering brought an increase of GDP/inhabitant in the Eastern and Central Europe countries. In order to continue the decrease the regional disparities, for the 2014-2020 period the European Structural and Investment funds are also considerable, to the Eastern and Central Europe countries being allocated the biggest part of them.

Key words: regional development, regional policy, European Union, cohesion, disparities

JEL classification: R58

INTRODUCTORY ASPECTS. REGIONS AND REGIONALIZATION IN THE E.U.

As the EU enlargement took place, the development disparities became higher. The policy of regional development aims at lowering these disparities and preventing their increase. During the latest years, the bigger part of the funds that supports this policy was designed for the less developed regions, in order to increase their competitiveness and help them develop. This is how the regionalization got a higher importance within the EU.

The word *region* has its origin in the Latin word “*regionem*” and it is present in most European languages meaning land, geographic area with borders and more or less precise characteristics (1). In the broadest sense, the term region is used to group several elementary spatial units, provided that between any two of them, belonging to the same region, to be similar in a way or another (2). It is to be noted that this notion of “similarity” can be seen from many points of view, each leading to different territorial clippings.

The term *region* applies both within the national and international space for the delimitation of some areas located in a specific geographic space. It may be formed from the border areas of neighboring countries or from groups of countries, due to economic or cultural links between them (e.g. Scandinavian countries, countries from South-East Asia and Pacific). From the perspective of EU policies, *region* means a territorial cut of a country, with or without administrative attributions. We can observe that since the '50s, the word *region* is associated with the meaning of “geographical area” in a general sense, signification used until 1988.

In the next period, the regions, henceforth subject of regional development policies have been regulated according to the criteria of the Nomenclature of Territorial Units for Statistics (NUTS) elaborated by the Statistical Office of the European Union (Eurostat). In this way a uniform division of the territory has been obtained, useful for the collection and uniformization of EU regional statistics and for the implementation of regional development policies (regions eligible for cohesion policy are NUTS 2).

The reason why some competences have been transferred to the regions is that at this level policies of development can be more efficiently implemented than at state level. A local authority with a high degree of development, with great economic potential is capable of ensuring the prosperity of the locals without any intervention of the center (3). A state (NUTS 0) includes one or several macroregions (NUTS 1), every macroregion comprising one or several NUTS 2 regions. NUTS 2 regions also include some territorial units, the NUTS 3 ones.

According to the updated NUTS 2013 classification (valid from 1 January 2015), EU includes 98 NUTS 1 regions, 276 NUTS 2 regions and 1342 NUTS 3 regions (4).

Not all the NUTS 2 regions are administrative units, some of them are only a joining of some smaller territorial units and that is why they cannot fully participate at the decision-making process.

E.U. REGIONAL DEVELOPMENT AND ECONOMIC DISPARITIES

If so far we have clarified the issues related to the concept of *region*, next we believe that some clarifications about the scope of the term **regional development** are needed.

The main issues (5) of the regional development refers to the forces that direct the development of a region, to the influence of the external decisions on these forces, to the trend of space toward homogenization or differentiation.

Regional development has a broad coverage, which makes it sometimes to overlap with other fields with which it has similarities in terms of content: local development, economic development or territorial planning. Regional development is a relatively new concept, which means not only boosting and diversifying economic activities, stimulating investments in private sector, contributing to reducing unemployment and improving living standards, but a whole environment of support and adaptation of the sustainable actions that converge with the competence fields of the region (6). Regional development objectives aim at achieving a certain interregional balance in terms of efficiency, but also at minimizing the undesirable effects of the development.

In past decades, with the early stages of implementation of regional development policy, it was believed that in order to decrease the regional disparities of development the territorial redistribution of economic growth was sufficient. Recent years have witnessed the fact that it became widely accepted the idea that the socio-economic disparities can be reduced only by creating competitive capacity in the regions.

Within a unique market without protectionist barriers, existing disparities could increase, destabilizing the communitarian construction, that's why EU regional policy is designed to prevent this and to strength the competitive capacity of the less developed regions. The most prosperous regions are Inner London-West – with a GDP/inhabitant expressed in Purchasing Power Standard (PPS) more than 5 times higher than the EU average, Luxembourg, Bruxelles, Hamburg and Inner London-East – with a GDP/inhabitant more than 2 times higher than the EU average. The poorest regions in the EU are some from Bulgaria, Romania, Hungary and Poland (under 50% of the EU average). High differences of GDP/inhabitant (PPS) also exist among some of EU countries, the highest values being in Luxembourg (more than 2 times higher than the EU average), followed by Ireland, Netherlands and Austria – at least 30% higher than the EU average, and the lowest in Romania and Bulgaria, the poorest countries in the EU (about 50% of the EU average).

The priority of regional policy is to bring the living standards from the countries adhered after 2004 at the EU average, in this way decreasing the existing disparities that can be due to the geographical farness and / or to the social and economical changes. The effects of underdevelopment are obvious in the poverty, in the high rate of unemployment or in the poor infrastructure, these realities existing also due to the former centralized economic systems.

ASPECTS REGARDING THE STRUCTURAL FUNDS ABSORPTION AND THE EVOLUTION OF ECONOMIC DISPARITIES IN 2007-2013 PERIOD

The absorption of the available Structural Funds took place in different grades in the EU countries. Most of the Member States absorbed more than 90% of the available funds. Romania is on the penultimate place, with 70%. Even if apparently the organization of funds absorption process is somehow simple, these programs proved themselves to have a limited accessibility for some countries, at least in the first years from the 2007-2013 period of implementation. The absorption degree of Structural Funds can be considered low in the case of Croatia and Romania, and relatively low in Italy, Malta, Spain and Slovakia.

As one can see in the Figure no. 1, compared to the EU Member States from the Eastern and Central Europe, Romania has a very low absorption rate. Only Croatia recorded a lower rate of absorption, but it joined EU in 2013. As for Romania, the low absorption is determined by the excessive bureaucracy, the difficulty of accessing European Funds, lack of initiative and the insufficient involvement of the authorities in order to stimulate economic agents to access those financial resources. We think that in Romania the authorities must act in order to avoid a low absorption rate in Romania for the period 2014-2020, and in the latest years some progresses have been recorded.

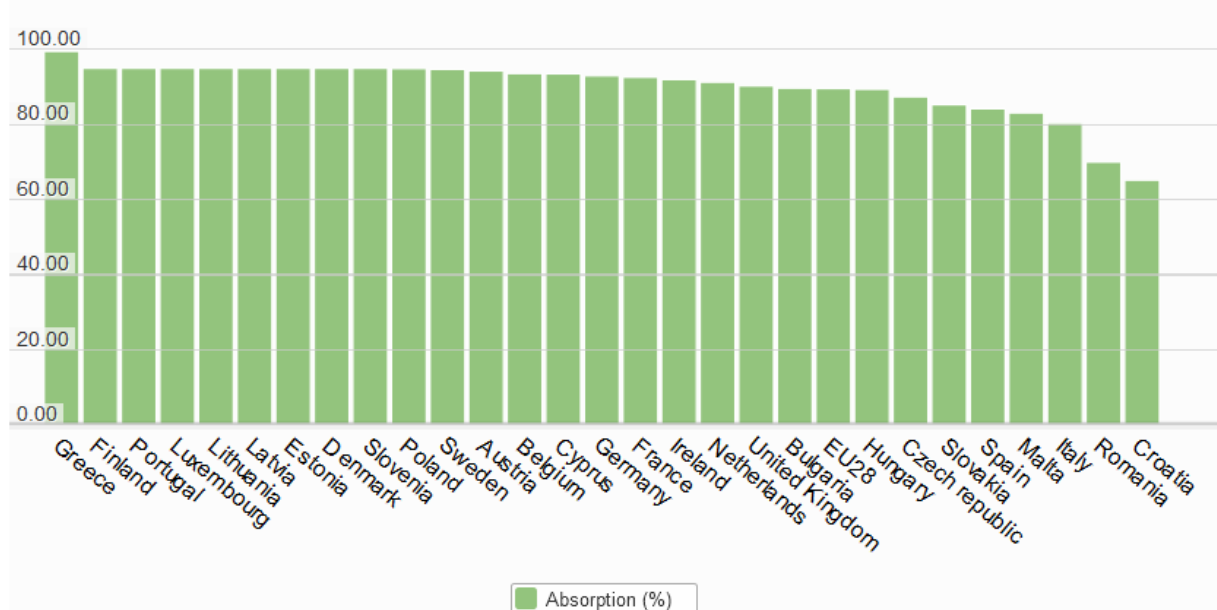


Figure no. 1. Total Percentage of Available Funds Paid Out by the Commission 2007-2013

Source: http://ec.europa.eu/regional_policy/how/coverage/index_en.cfm

The Structural Funds aimed at determining economic growth, the increase of the competitiveness and the decrease of the gaps existing between the east and west of the EU. However, the gaps still remain big, but, as one can see in the Figure no. 2, they have the tendency to decrease.

Nor the EU countries, neither the NUTS 2 regions are identical, their surfaces and populations differ, as well as, their economies. So, the general level of prices also differs, and, as a consequence, the comparability of GDP per inhabitant expressed in Euro is also affected. To avoid this inconvenient, it is often used the GDP per inhabitant expressed in Purchasing Power Standard (PPS), also for the determination of the regional eligibility the regional policy funding allocation.

GDP includes the value of all goods and services produced less the value of the goods used for their creation. GDP per inhabitant can be expressed in Euro or in PPS, the last one cancelling the differences from the prices level that exist among the countries. For calculation, the total value of the goods and services produced in an economy are divided at the number of inhabitants, GDP per inhabitant in PPS being expressed in a conventional currency.

The GDP per inhabitant expressed in PPS is calculated in relation to the EU-28 average, to which it have been given the value 100%. We put together the relative values from 2007 and 2014, in order to see the evolutions recorded compared to the EU average.

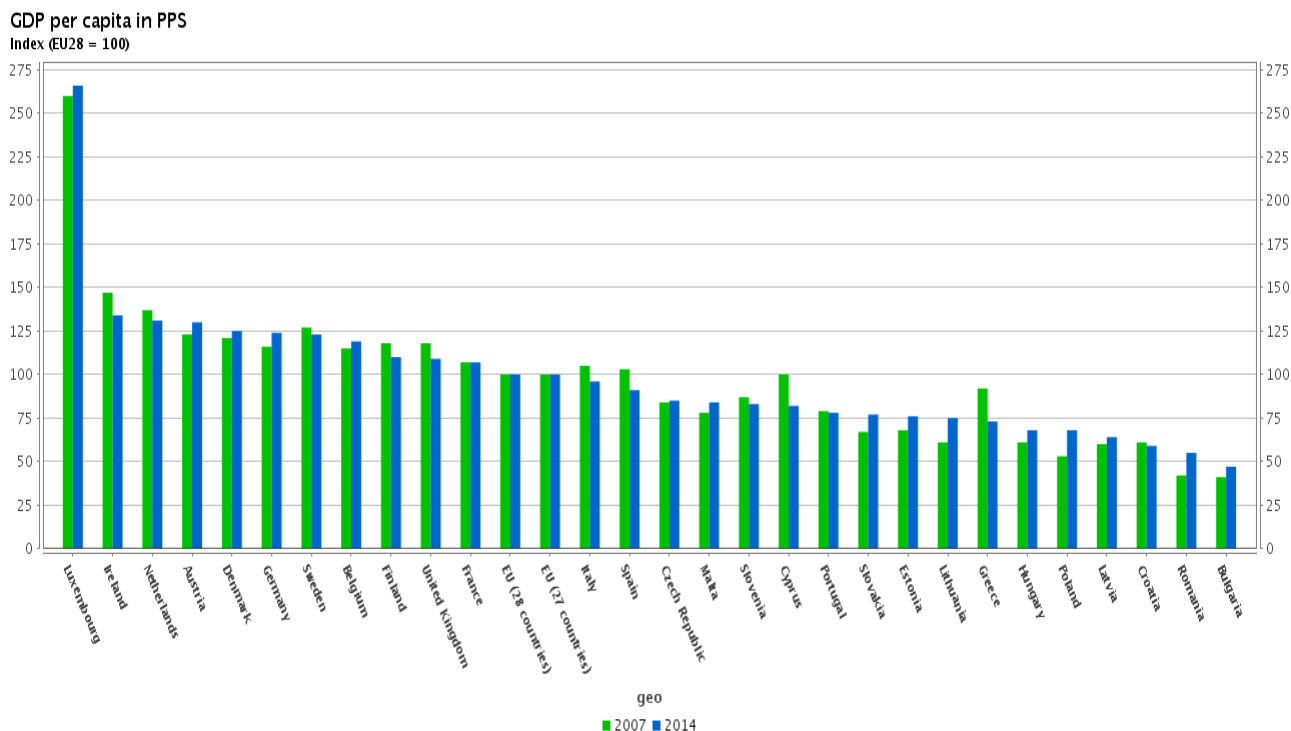


Figure no. 2. GDP per inhabitant in PPS (EU-28 = 100)

Source: <http://ec.europa.eu/eurostat/tgm/graph.do?tab=graph&plugin=1&pcode=tec00114&language=en&toolbox=data>

In Luxembourg there are the highest values of GDP per inhabitant, followed by Ireland, Netherlands and Austria, while the smallest values are in Romania and Bulgaria. We can also observe that in most of the East and Central European countries, there have been recorded increases, their values getting nearer to the EU average. These increases are also due to the Structural Funds of EU, which contributed in this way at the decrease of the disparities.

The advantages brought by the EU adhesion and an efficient regional policy can contribute to the decrease of the disparities. For example, the regions București-Ilfov (Romania) and Mazowieckie (Poland) recorded in 2014 a GDP/inhabitant (PPS) of 129% and, respectively, 108% of the EU average (from 64% and, respectively, 72% in 2003). Other notable increases were recorded in Dolnoslaskie (Poland), Yugozapaden (Bulgary), Estonia and Lithuania, the GDP/inhabitant (PPS) values reaching 75% from about 50%.

The states from Eastern and Central Europe that joined the EU starting with 2004 had lower values of GDP per inhabitant (expressed in PPS) compared to the EU average. Regarding the regional GDP/inhabitant (PPS), we can see that, usually, the regions that include the capital city have higher values than the EU average. According to the results of a previous study (7), the EU adhering had a positive influence on the regions, the increases of GDP becoming higher than in the period before membership.

The economic regional economic disparities are still a problem in the EU, as the number of regions with GDP/inhabitant (PPS) under 75% of EU-28 average is still big (more than a quarter). The number of regions with GDP between 75% and 90% of the EU average increased, which means that the share of the regions with GDP higher than 90% decreased. In the figure no. 3 we represented the evolution of the number of the EU-28 276 regions in the latest years, according to the criteria of GDP/inhabitant (PPS).

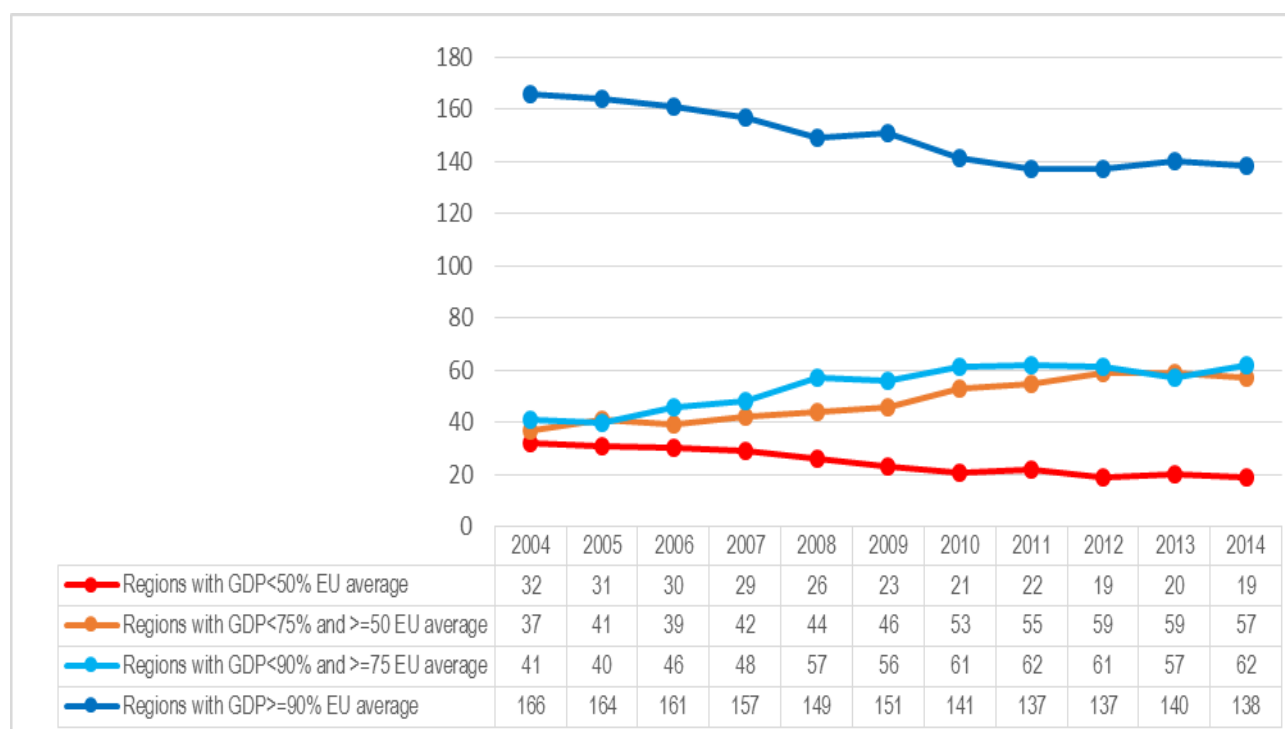


Figure no. 3. Evolution of number of EU-28 regions by GDP/inhabitant (PPS)

Source: own elaboration according to the Eurostat data

The total number of less developed regions (with GDP<75%) is still big, but we can notice that the number of regions with GDP under 50% of the EU-28 average decreased significantly, they having in 2014 a share of almost 7% in the total number of regions. All these data prove that economic disparities have the tendency to decrease, the regional development policy being an important factor towards this.

THE REGIONAL POLICY IN THE 2014-2020 PERIOD

Regional Policy has as goal to support job creation, business competitiveness, economic growth, sustainable development, and improve citizens' quality of life, in all the areas of the E.U., allocating for this 351,8 billion Euro (8). This amount for Cohesion Policy for 2014-2020 is almost a third of the EU total budget.

These funding is supported through the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF). These three main funds along with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) consist the European Structural and Investment (ESI) Funds.

Cohesion Policy focuses first of all on less developed European countries and regions in order to reduce the socio-economic disparities existing in the EU. This policy covers all EU regions, but most funds are directed to the regions where GDP per capita is less than 75% of the EU-28 average. For 2014-2020 the EU's cohesion policy concentrates itself on 11 thematic objectives, intended to be achieved by three principal financial tools serving for the implementation of regional policy.

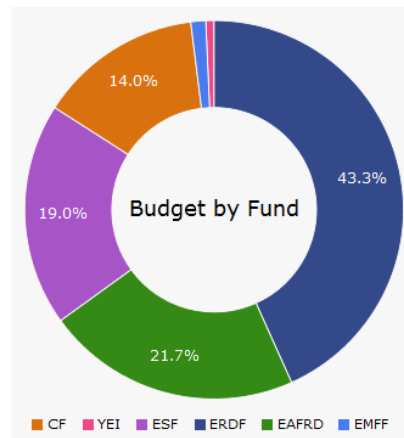


Figure no. 4. Budget by Fund

Source: <https://cohesiondata.ec.europa.eu/overview>

YEI = Youth Employment Initiative

In order to decide the eligibility of the ESI funds regional statistics are used. For determining the allocation of the ERDF and the ESF for 2014-2020, it was used as a basis, the GDP per inhabitant expressed in PPS for the period 2007-2009 at regional level.

The NUTS 2 regions were labeled as following:

- less developed regions - if GDP per inhabitant was less than 75% of the EU-27 average,
- transition regions – if GDP per inhabitant was between 75% and 90% of the EU-27 average,
- more developed regions – if GDP per inhabitant was more than 90% of the EU-27 average.

Figure no. 5 shows the three categories of regions and we can see that the less developed regions are, most of them, in the Eastern part of EU. These regions will receive the biggest part of the funds.

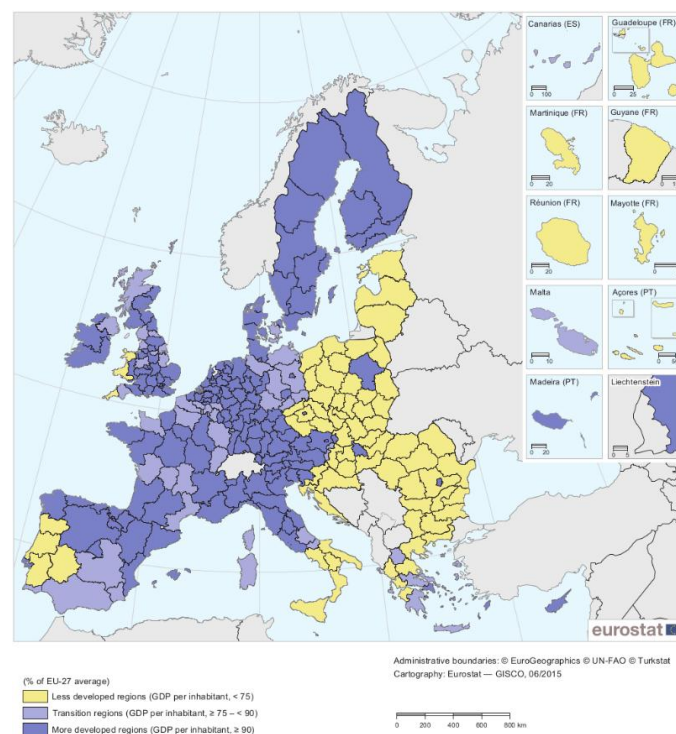


Figure no. 5. Regional eligibility for Structural Funds for NUTS 2 regions, 2014-2020 (% of EU-27 average)

http://ec.europa.eu/eurostat/statistics-explained/images/8/84/Regional_eligibility_for_structural_funds%2C_by_NUTS_level_2_region%2C_2014%E2%80%932015%28%29%28%25%20of_EU-27_average%29_RYB15.png

For the 2007-2013 period there were 103 less developed regions, 14 Phasing out eligibility under *Convergence* objective, 11 Phasing in eligibility under *Regional competitiveness and employment objective*, the other regions being considered developed ones.

For 2014-2020 period, there were 72 less developed regions, 51 transition regions – that became more competitive in the latest years, but still need investments and benefits of a supplementary stimulus.

The eligibility for the Cohesion Fund (CF), at regional level, is set using the average value of gross national income per inhabitant (in PPS) for the period 2008–2010. Thus, the CF is directed to the countries where gross national income per inhabitant was under 90% of the EU-27 average, namely Bulgaria, the Czech Republic, Estonia, Greece, Croatia, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia. The eligibility of Cyprus is for a phase-out fund. All the Central and Eastern Europe countries that adhered to the EU after 2004 are eligible for this fund, which means that the east-west disparities still maintain.

The EU financing for 2014-2020 period is presented below. The highest funds are designated to Poland and other consistent funds are allocated to Italy and Spain (both affected by the economic crisis) (Figure no. 6).

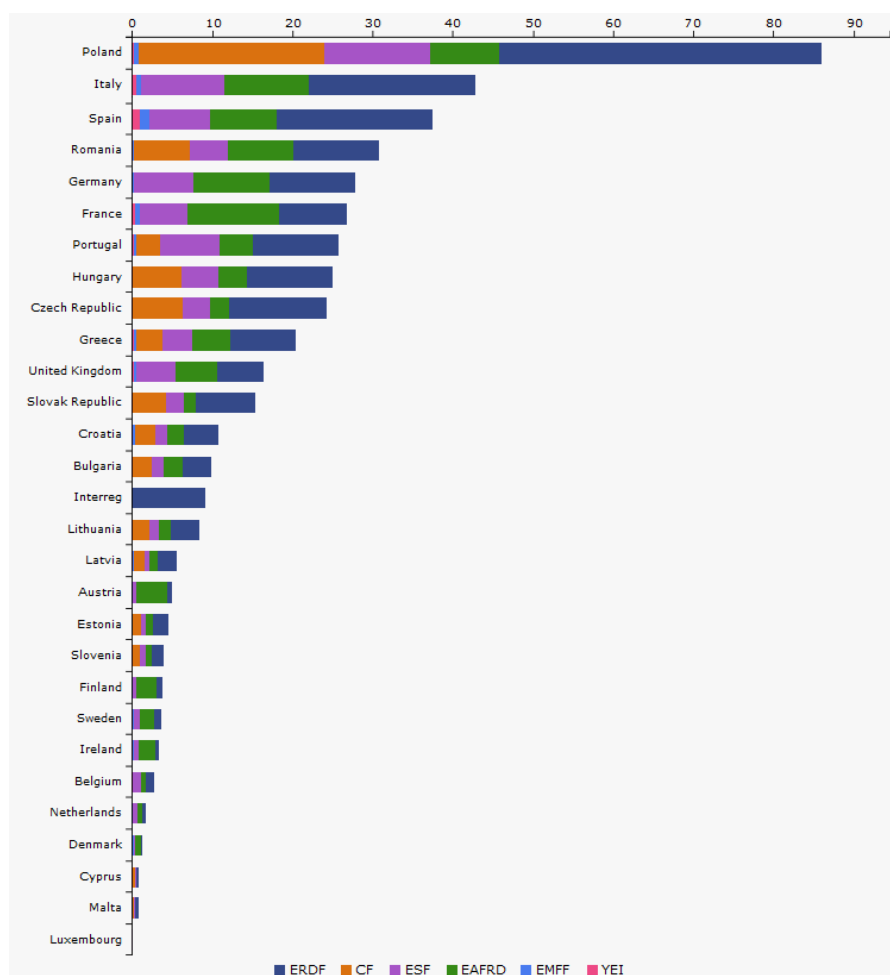


Figure no. 6. Budget by country (Euro billion)

Source: <https://cohesiondata.ec.europa.eu/overview>

The Eastern and Central European countries have high allocation of funds, compared to the other EU countries, proving the concern to decrease the economic disparities existing within the EU. In the allocations by funds it can be seen that ERDF has the highest share in the Eastern and Central Europe states.

CONCLUSIONS

The expansion of EU brought within the community borders countries and regions with different levels of development, thus economic disparities became higher. In this context, the regional development policy gained an increasing importance and the funds allocated to regional development policy increased over time, in the period 2007-2013 reaching to more than a third of the EU budget. It aims not only at decreasing the existing regional disparities in the EU, but also at gaining regional competitive capacity, the bigger part of these funds being designated to the less developed regions. The NUTS 2 regions, at the level of which the absorption of funds take place, are not in all cases administrative units, they can also be only a joining of some smaller administrative units (this is also the case of Romania). The level of absorption is different in the EU Member States, Romania having a low rate compared to the other states in the Eastern and Central Europe, fact due especially to: excessive bureaucracy, the difficulty of accessing European Funds, lack of initiative and the insufficient involvement of the authorities in order to stimulate economic agents to access those financial resources. The funds allocation is based on the eligibility criteria and the EU Member States create Operational Programs for funds accession, assuring also the necessary cofinancing.

For the 2014-2020 period the ESI funds are also considerable, because there are still high regional economic disparities at the EU level. The highest value of GDP/inhabitant (PPS) is 5 times the EU average and the lowest values are about a third of the EU average. More than a quarter of EU regions are less developed ones (GDP/inhabitant in PPS < 75% of EU average), but, however, the number of regions with GDP under 50% of the EU-28 average decreased significantly, this being in 2014 the case of almost 7% of the EU regions. In order to continue the decrease of the economic disparities existing in the EU, the Eastern and Central European countries will receive the biggest part of the funds and ERDF has the highest share in the total funds.

A equilibrated and durable development can be reached by decreasing the regional disparities within the EU and regional development policy is a catalyst in this respect.

ENDNOTES

- (1) D. Platon, *Regiunile din unghiul politicilor de dezvoltare ale UE în Dezvoltare regională și integrare europeană*, in C. Pârlog, D.L. Constantin (coord.), *Lucrările celui de-al Doilea Simpozion Național al Asociației Române de Științe Regionale*, 4-5 aprilie 2002, București, Editura Oscar Print, București, 2003, p.43
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- (4) <http://ec.europa.eu/eurostat/web/nuts/overview>
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- (7) A.L. Scutariu, *The evolution of overall development in the Central and Eastern Europe countries in the context of E.U. accession*, *Economic Insights - Trends and Challenges*, Volume III(LXVI), No.2, 2014, pp. 65-73
- (8) http://ec.europa.eu/regional_policy/en/policy/what/investment-policy

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