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Regional Competition in Romania: Determinants and Policies

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Regional Competition in Romania: Determinants and Policies

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I. Introduction

Romania, like the other Central and East European countries, is undergoing a stressful and often painful process of radical change related to the transition to the market economy. The regional dimension of the corresponding strategy is integrated in a complex outlook which combines the need for local identity, self-reliance and development with the challenges and opportunities of globalisation processes seen at both national and international level, with the aim of the future integration in the European Union's structures in view. As transition does not represent a purpose on its own, the strategy conceived for this period must take into account not only the objectives specific to this stage but also long-term goals, expressing the time-continuity of strategic choices.

In this context the question of *regional competition* is a central one. In order to play a significant role in a globalising open market a region has to improve its competitiveness and this means that the region in question has to do things better than others as well as to do things together. *Competitiveness* and the '*regional problem*' are closely related. Of course, "in a static competitive market there will be always winners and losers, but it is important to recognise the difference between *absolute* and *relative* winners (and losers)" (Nijkamp, 1997, p.3).

As it will be further demonstrated, an increase of disparities in the level of socio-economic development of different counties, aggravating the equity problem, has been already recorded in Romania since 1990, as a result of replacing the factors which used to control the economy by market forces, gradually freed up. But the basic question is whether after an initial period of growing interregional disparities a process of spatial economic convergence will start in longer

run. This means that the regional question is not simply a static allocation problem but also one referring to a long-range qualitative conversion phenomenon.

Before discussing possible regional development policies able to cope with this so sensitive problem, another question should be addressed, namely which are the main determinants of regional competition in Romania.

II. Romanian Counties' Economic Potential as a Determinant of Regional Competition

Starting from the recognition of the *great variety of determinants of regional competition* (available resources, available actors, conditions of society, conditions of economy, locational advantages, historical, cultural developments, economic policy, order of competition, etc.) and relationship between them, this paper aims to address the question of the economic potential of Romanian counties in terms of their sectoral structure and industrial specialisation in connection with the socio-economic development level and regional disparities dynamics, so as to identify problem situations specific to various counties or groups of counties as well as those forces able to make interregional competitiveness play a crucial role in regional development.

From a global perspective, Romania is one of the biggest countries in Central and East Europe, covering an area of 238 391 sq. km, with a population of 22.6 million people. Along with its location in the northern part of the Balcanic Peninsula, the access to the Danube – the main river in Europe (passing through nine countries from the West to the East and contributing to the linkage between the North Sea and the black Sea via Rhine – Main – Danube channel), the opening to the Black Sea, a 'plaque tournoyant' between Europe and Asia, all of these characteristics bestow on Romania a *strategic position* in Central and South-East Europe.

Romania's *territorial-administrative structure* comprises one regional level (counties or 'judete' in Romanian) and one local level (cities, towns and communes). There are 40 counties plus Bucharest municipality. Their surface and population are within the range of 3 526 sq. km (Giurgiu) and 8 697 sq. km (Timis), respectively 232.5 thousand inhabitants (Covasna) and 871.9 thousands (Prahova). The total number of localities is 2948, of which: 78 cities (municipalities), 184 towns and 2686 communes. The national average urbanisation degree is about 55%. The majority of cities and towns are located in the south of the country, followed by Central Transilvania and Moldova. Bucharest, the capital of Romania, is far much bigger than the other cities, counting more than 2 million people. It is expected that its hypertrophic

character will grow in the period of transition owing to a far higher living standard offered and a preferential orientation of foreign investments towards the capital city.

The *counties' economic potential*, represented by the volume and the quality of material and human resources and the results of their productive use and influenced by natural-geographic, demographic, technical, economic, social and cultural-educational factors, reveals a pretty important diversity, directly influencing the comparative advantages specific to different counties.

In the beginning, if the *spatial distribution of population* is compared to that corresponding to *counties' area*, a depression in the distribution of population on the line north-west / south-east will be noticed, owing to a lower demographic potential; this is influenced, in some degree, by unfavourable environmental conditions (mountainous regions, the Delta of Danube). An opposite situation can be seen in the metropolitan zone of Bucharest, where the highest density of population is recorded, as well as in several other zones, where more than 57% of population lives in.

As regards the evolution of population at national level, an absolute decrease has been recorded after 1990 (from 23.2 million inhabitants in 1990 to 22.6 millions in 1996), as a result of both declining birth rate (the main factor) in the last two decades – sharply after 1989 due to the freedom of abortion, self restriction to marriage, a greater access to family planning services – and amplified emigration to other countries. Thus, the rate of live-births decreased from 27.4 per 1000 inhabitants in 1967 (when the abortion forbidding act was issued) to 18 in 1980, 13.6 in 1990 and 10.2 in 1996, while the rate of deaths raised from 9.3 per 1000 inhabitants in 1967 to 10.4 in 1980, 10.6 in 1990 and 12.6 in 1996, finally resulting in a *negative natural increase*, of –2.4 per 1000 inhabitants in 1996.

In general terms, the national territory can be structured into *three main groups of counties*, according to the *differentiated evolution of demographic characteristics*, as follows: group “A” (consisting of 21 counties, located in north, east, south-east and in a part of central and southern Romania), where the young population prevails; group “B” (consisting of 14 counties, predominantly located in south and south-west), where the ageing rural population is prevalent; group “C” (consisting of 6 counties situated in the western part of Romania), with a predominant ageing urban population. Many of the counties in the group “A”, especially those

‘artificially’ industrialised record high unemployment rates and display specific migration patterns, as will be discussed in one of the next modules.

The *negative* demographic phenomena affect especially the *rural* areas, where emigration to the urban ones, as a result of forced industrialisation policy in the last decades, has caused major problems, such as: the tendency to depopulating phenomena, more that 75% of rural localities being confronted with population decrease; a high share of the aging population; aging labour resources, the share of 40-59 year old persons exceeding 48% of total labour resources in rural areas, in comparison with 40% in urban ones; insufficient and poorly diversified jobs; low level and bad quality of basic infrastructural facilities. All of these have induced significant disturbances in rural community life and a serious decrease in the capacity to benefit from the natural advantages that many villages could normally have.

The description of the economic potential from *sectoral* viewpoint can bring about new facts, able to complete the actual image of the Romanian economy at national and regional level and to highlight certain advantages and drawbacks in this so stressful period.

Romania has an important and interesting *agricultural potential*. Prior to communist era it was named “Europe’s granary”. The agricultural area (by 14.8 million ha) represents about 62% of the national territory. Arable area counts by 9.3 million ha (63.1% of the agricultural area). The counties of a higher potential in this field are situated on the arch east/south-east/south.

The other counties have larger areas covered by vineyards, orchards and pastures. Forestry potential must not be neglected either. The forests cover approx. 6.3 million ha. In terms of structure by species and wood quality Romania ranks among the most favoured countries in Europe.

Subsequently, some overall aspects should be mentioned. In agriculture the socialist co-operative ownership was absolutely abolished. According to the Land Act issued in February 1991 the land has been returned to the original owners and their offsprings, so that 80% of the arable land (especially for cereals) and 70% of other agricultural land belongs to farmers. State farms still keep 1.3 million ha and cultivate 0.5 million ha by a lease contract. Although these data are encouraging for privatisation success and the possibilities to increase the competitiveness chances of the counties of high agricultural potential, the agricultural production fell down due to the insufficient preparation of privatisation. Several facts could be highlighted in respect to this affirmation. First, the land productivity decreased. The farmers own scattered small pieces of land without lanes and waterways; the average owned area size – 1.9 ha per farmer is very small in a poorly intensive agriculture. The farmers do not have

proper tools and equipment (tractors, warehouses, food processing mills, and so on), being deeply dependent upon the state services (and they themselves are in a privatisation process too). Moreover the irrigation system was destroyed suddenly. Farmers have to purchase seeds, fertilisers, tools, etc. and to sell their own products themselves. Open markets have been set up in many places once a week, but sellers are more than the buyers in villages. Third, nearly 40% of the landlords are living in towns and cities and are not engaged in agriculture anymore. Some of them have already chosen to cultivate their land by a lease contract with a state farm, while the others have still to decide whether they cultivate their land by a lease contract with a private farmer, join a farmer association, return to their villages as farmers or sell the land to other people (so far they are the subject of the so-called 'weekend peasant' phenomenon). Two new regulations in this field – the Leasing Act and the amendment to the Land Act, raising the upper limit of the private land ownership from 100 to 200 ha, are to support their decision.

As regards the Romanian *industry*, prior to 1990 *forced industrialisation* was a basic dimension of the communist government economic policy over more than two decades. As a little concern was offered to agriculture, an adequate flow of food and labour from this sector could not be assured. Industrialisation began without an adequate increase in agriculture productivity, causing many abnormal situations. Nevertheless, the agricultural production was seen by the communist government as an important source of improving the balance of payments, while the amount needed to feed urban population and to allow some savings in rural communities was not assured – this was a deep root of 1989 revolution. Also, as investment funds were very limited, large-scale infrastructure projects, essential even for a real and strong support of industry, were neglected as well. The industrial policy concentrated on ensuring the economic independence rather than on comparative advantages. Many drawbacks as extensive material consumption, energointensivity, bottlenecks, pollution, etc. arose. The ambition to pay all foreign debt in a short period caused a very collapse of fixed assets, which became more and more obsolete, with few chances to be replaced.

From regional viewpoint the main objective was a balanced development of all regions, so that both infrastructure and industrial investment were directed to all parts of the country, with little concern with efficiency aspects. Many locations chosen by planners often completely disregarded comparative advantages and could not survive without high subsidies. The redistribution of natural resources in this way resulted in an overall slowing down of the pace of economic development.

After 1989 the difficulties of the previous period have been stressed by the demolition of the former organisational structures and by the problems emerged from the market-based activities – impossible to arise over night – as well as by the insufficiency of investment needed to support restructuring and technological change processes. The mass privatisation was delayed, with negative consequences on other components of reform. It got slowly under way only in October 1995, using a voucher scheme. Though, its aims were ambitious: by 3000 out of 5000 state-owned firms were sold off by the end of 1996. Nevertheless, the process was criticised for being poorly organised. The next step, emerged from the need to increase the effectiveness of restructuring processes consists in the continuation of privatisation, by auction this time, as well as in a ‘wave’ of firm liquidations due to their insolvency.

Despite these shortcomings Romanian industries have been already adjusting themselves to the market economy. There is a slight recovery so far, especially where foreign partners are involved in. Food, light industries such as textiles, leather, woods, paper, furniture, construction materials have recovered their exports nearly equal to pre-revolution level, while minerals, chemicals and machinery are seriously hit. Of course, even though Romania can survive by agriculture and light industries, the actual problem is whether it will be able to advance more than that (see Kurokawa, 1994).

From regional viewpoint, those counties where the industrial basis was artificially created and supported by subsidies – generally backward counties – are now facing the most severe impact of the process of transition and structural adjustment (see Green Paper, 1997). An important polarisation between the counties of a higher industrial potential and those of a higher agricultural one (usually poorer) can be already noticed, the former having a better situation than the latter in terms of regional income and employment.

A comparison between counties in terms of their structure by industry can reveal the industrial competitiveness chances of each county and its capability of effective adjustment to the new economic opportunities. With this end in view the specialisation quotients and the concentration/diversification degree of the industrial structure at county level have been estimated using the data provided by the Statistical Yearbook of Romania (see Constantin, 1994). In addition to their significance in terms of regional multiplier effects, as recovery chances of various industries are different, these quotients can be used to highlight the situation of each county in respect of its opportunities to surmount the problems of transition, especially those concentrating on restructuring and technological change. For example, the concentration/diversification degree can be either advantageous or disadvantageous for the

corresponding programmes. Thus, if an industry inducing a higher concentration degree is in expansion, it can employ a part of the labour force from the industries in decline. On the contrary, if a highly concentrated industry is in decline, it can stress the instability phenomena in terms of employment, income, and so on. The results indicate a quite evident tendency to diversification, that can support the efforts of many counties to adjust their industrial structure in accordance with economic, social and environmental criteria. Nevertheless, there are some counties such as Brasov, Galati, Prahova of a higher concentration degree owing to machinery in Brasov, iron and steel in Galati, petroleum and petroleum equipment in Prahova. As mentioned, some of these industries are less prosperous, requiring maximum concern for mitigating big social convulsions. The afore-mentioned counties have had a level of development above the average in the last decades so that their future evolution depends on finding appropriate solutions to compete efficiently in a new environment: privatisation, structural adjustment, new markets, new entrepreneurial relationships, etc. supported by realistic, effective regional policies.

However difficult the problems in the sectors presented above would be, *infrastructure has the worst situation*. Important laggings have been recorded in transportation, communication and information network and various services for population (health care, water supply, sewer systems, treatment plants, and so on). Some examples could be relevant.

Transportation and telecommunication represent approx. 10% of GDP, while services like commerce, hotel and restaurant, banking, public administration and so on hold about 27% of GDP.

Within transportation sector road infrastructure is on the last but one place in Europe in terms of modernisation and keeping in good condition. The situation has grown worse after 1989, when traffic restrictions (e.g. travelling by car on either even or odd Sundays, gasoline quotas) were abolished. There are very long sectors of national highways with only two tracks, maintained in bad condition, unable to ensure traffic fluency, with negative influence on comfort and traffic security. The motorways account only a few hundred kilometers, in the south part of Romania.

The situation is less alarming in rail transportation which the biggest attention was paid to in the communist era. However, rail infrastructure and rail equipment have been deteriorated by the big quantity of metals, mineral products, fertilisers, fuel transported. As in medium and long-term perspective the closing of the railways of a low charge is expected (for efficiency reasons), the main concern will be with major transport axes, able to offer real advantages to

beneficiaries (high speed, comfort) as well as to the whole community (maintaining labour mobility, lower pollution, etc.).

From regional viewpoint the poorest transportation infrastructure is recorded by the eastern counties and it is getting relatively better as long as one moves towards the western part of the country.

Although a complete review of service situation in Romania has not been the aim of this paper, it has to be mentioned that many services for population are insufficient and of a low quality compared to the modern society requirements: education, research, health care facilities are very poor, to say nothing about heat and water supply, sewer systems, waste-treatment facilities, incinerators needed for waste disposal, etc., all of them of a critical importance for human health and environment preservation.

III. Regional Disparities Dynamics

The differences between counties from economic viewpoint, inducing specific responses to the restructuring processes which occur in the transition phase and changes in counties' capacity to compete in a new politic and economic environment, are specifically mirrored by the differences in terms of regional income, unemployment, migration flows, etc., other said in the level of socio-economic development.

For an overall image, Romania's *GDP per capita* (of approx. 4600 USD) stood at some 23% of the EU average in 1995. In terms of regional disparities data indicate a range from 116% of the national average in Bucharest to 54% in the southern regions around the capital. Compared to the situation in other countries from Western Europe or Polish voivodships, regional discrepancies in Romania are neither much higher nor much lower than in some of these countries. According to the computation performed within the Green Paper – PHARE Programme (1997), Romania is comparable to most Southern EU countries such as Spain, Portugal, Greece.

In terms of average monthly wage, the ratio between the county of the lowest average monthly wage and the national level (that is around 100 USD in absolute terms) is 0.76 : 1 whereas the ratio between the county of the highest one and the national average is 1.33 : 1.

Higher wages can be particularly noticed in counties like Gorj, Prahova, Hunedoara, Galati, where the economic activity is concentrated in powerful self-administrated authorities, organised as state monopoly (electric power, mining, transportation and so on). As they have a

key position within the national economy, their trade unions represent real pressure groups that have succeeded, given considerable subsidies from the budget, to obtain job security and wage increases.

The *territorial distribution of employment* confirms the phenomena described above. In terms of structure by sector new trends have been recorded after 1990. Thus, the main shift has been an increase in the employment in agriculture (from 28.18% in 1990 to 35.6% in 1994) not only as a result of land reform, followed by a rise in the number of private producers, but also as a result of a major decrease in the employment in industry (from 37% in 1990 to 28.8% in 1994). This is not a simple employment transfer from a sector to another one: it induces a lot of other significant effects like commuting diminishing, new trends in migration flows, etc..

Although considerable increases have been noted in certain sub-sectors such as real estate, finance, banking and insurance there has been no significant shift in employment in favour of the tertiary sector. So far only Bucharest municipality records 50% of employment in the tertiary sector. The other counties display the following distribution: in one county (Constanta, with the biggest Romanian harbour at the Black Sea and important touristic infrastructure) the share is 41.6%, in four counties (situated in the western part of Romania – Timis, Cluj, Arad, Sibiu) the share is in between 30% and 40%, while most of them (30 counties) have a share in between 20% and 30%; in five counties (situated in Northern Moldova and in the south) the share is under 20%.

The *rate of unemployment* is by 7% at national level, with significant variations between counties because of their own economic structure (especially by industry) and capacity to adjust it according to market mechanisms and corresponding restructuring challenges in the transition phase. The spatial distribution of unemployment shows a clear polarisation between some western counties (Timis, Arad, Bihor) and Bucharest municipality (of a rate around 3%) on the one hand and several eastern counties (Botosani, Suceava, Neamt, Vaslui, Tulcea – where the rate of unemployment exceeds 10%) on the other hand.

Considering that the *labour force territorial mobility* should represent a factor able to reduce the aggregate level of unemployment, two main directions of the unemployed migration flows have been remarked in Romania: first, from the areas of labour force surplus towards the areas where job opportunities are greater and/or there are better social conditions for the unemployed and, second, from the industrial areas towards birth-place areas. If the first tendency can be included in a general theoretical model or regional labour markets, the second one has occurred as a result of institutional changes, mostly generated by the implementation

of the Land Act. One of its effects has been the orientation of a part of the unemployed from industrial agglomerations towards their birth-place areas (usually rural ones) that were abandoned during the '60s – '80s. This phenomenon has a special relevance for eastern counties: in the past they were one of the major sources of job-searching emigrants towards urban expanding labour markets located in their proximity (Brasov, Iasi, Galati) or even farther (Constanta, Timisoara). The partial return of the laid-off active population from these cities as an effect of the economic depression has been a major cause of the rise of unemployment in the eastern counties above the national average (see Partenie, Jula, Constantin, 1990).

This analysis has highlighted some relevant aspects of socio-economic development from regional viewpoint. In order to provide a general view on the level of development of Romanian counties and on the evolution of regional disparities, the results previously obtained by the author of this paper are discussed and compared to those provided by other research studies in the same field.

In a comparative study on counties' economic and social development level, *factoral and cluster analysis* were used, processing the data provided by the Statistical Yearbook of Romania for 1990 (see Constantin, 1991). The factoral analysis employed the following indicators: industrial production per capita, employees/1000 inhabitants, share of employees in non-agricultural sectors in total number of employees, industrial labour productivity (for the economic factor); teachers/1000 pupils, radio-TV subscriptions/1000 inhabitants, physicians/1000 inhabitants, retail sales per capita, volume of distributed potable water per capita (for the social factor). The results have shown several typological groups of counties:

- counties with a high level of both economic and social development (e.g. Arges, Brasov, Prahova);
- counties with low level of economic and social development (e.g. Giurgiu, Calarasi, Ialomita);
- another group consists of eastern counties, including both counties with good economic results, but weaker social ones (e.g. Galati, Bacau) and counties with weak results for the both factors (e.g. Botosani, Vaslui, Vrancea, Buzau);
- as regards the western counties, some of them (Timis, Cluj) have good economic results and, especially, good social results while others (Satu Mare, Maramures) have weaker results, mainly in the economic field.

Taking into consideration that some counties have an irrelevant position, the factoral analysis was followed by cluster analysis which used four discriminant functions in order to distribute

the counties in four groups, according to their economic and social development level (from the highest to the lowest level):

group A: Arges, Bacau, Brasov, Cluj, Constanta, Galati, Hunedoara, Prahova, Sibiu, Timis

group B: Bihor, Caras-Severin, Dambovita, Dolj, Gorj, Iasi, Maramures, Mures, Neamt, Satu Mare

group C: Alba, Arad, Braila, Buzau, Covasna, Harghita, Olt, Suceava, Teleorman, Valcea

group D: Bistrita Nasaud, Botosani, Calarasi, Giurgiu, Ialomita, Mehedinti, Salaj, Tulcea, Vaslui, Vrancea

The typological groups of counties have pointed out a significant polarisation between developed and lagging counties, despite the declarative purposes of balancing the regional development levels and standards of living within the national development plans of the communist governments.

A study undertaken by the experts of RAMBOLL (1996), an international consulting firm, under the PHARE programme has obtained quite similar results employing a global development index. That index used almost the same economic and social indicators as the previous study to characterise the socio-economic development level by county in 1990 and 1994. The results obtained for 1994 have shown that the hierarchy remained almost the same as in 1990. The highest degree of stability was recorded for both the most developed counties and the least developed ones. The results have also revealed a slight tendency to increasing regional disparities, demonstrated by the increase in the ranking distance between the first and the last county in the global development index.

As many researchers have noticed, the experience of former socialist countries shows that *transition deepens regional disparities* because the factors that used to control the economy are replaced by market forces that are gradually freed up. The *speed of reforms* is finally responsible for the slower or faster increase in regional disparities (cf. Green Paper, 1997). In Romania's case the pace of reform was rather slow in the first six years. But the basic question is whether after a period of growing interregional disparities a process of spatial economic convergence will start in longer run. This means that the regional question is not simply a *static* allocation problem, but also one referring to a *dynamic* long-range qualitative conversion phenomenon.

As long as a convergence trajectory will not be automatically followed, an active regional policy is necessary. Some reflections on possible regional development policies able to make

regional competitiveness play a positive role in regional development are presented in the next section.

IV. Regional Development Policy and Regional Competitiveness

Despite its undeniable importance for the complete success of transition, the regional dimension of the corresponding strategy and reform was paid little attention for many years. Only in 1995, on the occasion of developing the strategy of preparing Romania for accession to the European Union, the government had to admit that the problems of regions, of local communities represent key elements for the realism and coherence of this strategy, necessary to be considered for bridging the gap between words and facts in the debated about decentralisation, local administrative autonomy on the one hand and those about European integration, trans-border co-operation, spatial networks, etc. on the other hand. Accordingly, two special chapters of the afore-mentioned strategy have been focused on regional issues, representing the background of subsequent decisions and actions. These chapters refer to regional development strategies and to the national spatial plan, concentrating on large-scale infrastructure projects and rational land use, as a synthesis of the strategies developed by each county and Bucharest municipality. They combine the concerns with transition and reform processes at regional level with the actions that have to be undertaken for the future integration in the European Union's structures. Consequently, the whole strategy is organised on two stages: 1995 – 1999 and 2000 – 2004, when the EU standards will be probably met.

The development of this strategy has been followed by a programme for regional policy analysis and development established within the framework of PHARE by the European Union and the Romanian Government. The programme has been implemented by the Department for Local Public Administration of the Romanian Government, assisted by a team of foreign advisors. A Regional Policy Task Force has overseen the programme activities with representatives from key ministries and regional authorities. One of the main tasks of this programme has been the preparation of the so-called "Green Paper", including the proposals formulated by the Task Force to the government in order to design and implement the regional policy in Romania. The proposed policy has three essential objectives: 1. to prepare Romania for the EU membership and for getting eligible for support from the EU structural funds; 2. to reduce regional disparities among Romanian regions; 3. to integrate public sector activities in order to reach higher development of the regions (cf. Green Paper, 1997).

This paper aims to address the main objectives included in the regional development strategy and the spatial plan as well as the main proposals formulated in the Green Paper especially from the viewpoint of integrating regional competitiveness issues in these debates, combined with the author's reflections on the possibilities of enlarging the actual approaches allowing for the new developments, orientations and applied research results in the countries of longstanding experience in regional development.

Of course, the *challenges of transition* at national level – a new institutional framework, privatisation, restructuring and technological change, new entrepreneurial relationships, etc. – specifically mirrored at regional level, must be central issues in the Romanian regional development strategy and corresponding regional policies. But, as transition is not a purpose on its own, the strategy conceived for this period should take into account not only the objectives specific to this stage, but also the long-term goals, expressing the time-continuity of strategic choices. This means that the national and regional context have to be integrated in a complex outlook, able to consider the *global challenges* too. These ones refer to globalisation and regionalisation, the European integration, the world wide ecological crises and socio-political changes (see Thierstein, Egger, 1995).

To Romania, a Latin country with remarkable contributions to the European and world cultural and scientific progress, whose European vocation cannot be questioned, but obliged to remain behind the iron curtain so many decades, the possibility to join the European Union and to *reintegrate* in the main European flows is an extraordinary big deal. This explains why many Romanians see only one side of the coin, namely the advantages of integration, that do not need to be discussed here. It is more important to the policy-makers to make clear the disadvantages of an insufficient and/or inadequate preparation of this process, as well as the key elements able to shape the relationships between Western and Eastern Europe in a way that contributes to an integration to the benefit of both the West and the East (see also Geenhuizen van, Nijkamp, 1995). Even in the view of many west-european researchers “a reliable path to reintegration should be based on the basic needs of East and Central Europe and should not be guided by the existing lacks within the EU. Key elements in this process could be: assistance in the development of a democratic institutional framework based on the political heritage of these countries; market access for products and industries in which the new countries have comparative advantages (in casu agriculture, textile and certain areas of manufacturing); knowledge and technology transfer to the industrial base of the receiving

regions to avoid the creation of isolated development poles without links to surrounding society” (Cornett, 1994, p.12).

As far as Romania’s particular situation is concerned, the attention should concentrate on its relative advantages in a very dynamic environment (its size and strategic geo-political location, the variety and quality of material (natural) and, especially, human resources, the economic potential of agriculture, some industries, tourism, etc., the political and social stability, and so on). On the other hand the policymakers should be aware of the drawbacks accumulated in nearly fifty years of centrally-planned production and amplified by the difficulties of transition. In a period of unprecedented openness between countries and regions, that increases the competition between European regions in an emerging network economy, a special emphasis should be put on the remove, in a reasonable time-horizon, of the main potential barriers to trans-border co-operation (physical, economic, political, socio-cultural ones) so as to make Romanian regions gain by this competition.

The most significant conclusion that can be drawn so far is that, whatever important the international support would be, the internal efforts and commitment to building a new society remain the basic requirements for creating a competitive economy, regionally oriented, allowing for the obvious tendency to decentralisation specific to the transition phase on the one hand and the clear option for integration in a Europe of regions on the other hand.

An integral regional strategy and policy, market – oriented (see Thierstein, Egger, 1995, Hiadlovská, Vogd, 1994) could be conceived as a corner stone in accomplishing this goal. In general terms, the main objectives would be reducing regional unemployment, attaining an efficient geographical distribution of industry and employment and, last but not the least, providing a more equal geographical distribution of income and living conditions (see also Hansen, Young, Cornett, 1995).

From an integral perspective, a regional policy able to carry out these objectives should combine the efforts of all levels involved in promoting regional development, concentrate on actors and their behaviour, co-ordinate sectoral policies and environmental preservation in accordance with the complex relation between them and spatial organisations, strengthen co-operative problem-solving instruments. This policy can directly influence regional competitiveness, contributing to increasing a region’s potential to ensure high economic development levels and living standards. Thus, *regional competitiveness* can be defined as “a measure of a region’s potential to achieve sustained high growth rates of the standard of living of its inhabitants” (Poot, 1998).

The question of the *levels* involved in regional development is closely related to the *renewal of the institutional and legal framework*, seen as a crucial element of the Romanian structural reform. Within the clear *tendency to decentralisation*, the regional strategies and policies focus on regional (local) efforts to foster socio-economic development, taking into account the strengths and weaknesses of each county. Competitiveness is then not regarded as a result of a top-down support, but is preponderantly contingent upon the creativeness of the regional base. But “viewed in the context of an unexpected intensification of spatial polarisation tendencies in East European countries, it should be avoided in the discussions of local authorities, local initiatives and local efforts and their role in regional development policy to see them as an alternative to the policy conducted from the perspective of the spatial organisation of the whole country or of a group of countries. Both national and even supranational and local level of regional policy must be complement one another” (Böttcher, Funck, Kowalski, 1993, p.25). This complementarity is closely related to the scale, importance and particularities of each project having a spatial impact. For example, in a complex network economy, large-scale infrastructure projects, more and more crossing regional and international borders, need the co-ordination between the national level and the county (local) level of regional policy. Before 1990, despite the declarative formulation of local self-administration, Romanian local authorities and communities were treated as voiceless executors of commands from the central level. Therefore, empowering the local, democratically elected authorities, providing them with legal, financial and other instruments of basic action within their counties and localities is a necessary component of the basic social and economic reform, highlighting the tendency to decentralisation. But the other levels (national, international) of regional policy must also be considered, as a response to subsidiarity principle, that stands for taking decisions on the most appropriate spatial level (see Geenhuizen van, Nijkamp, 1995).

These overall requirements have been taken into account by the main institutional, legislative, administrative acts having a regional impact in Romania. The most important that can be mentioned in this respect are: the Local Elections Act, the Local Public Administration Act, the Local Taxes Act, the Local Budget Act and the Act of State and Local Community Patrimony; after 1989 Romania has signed the European Cart of Local Autonomy, issued by the Council of Europe and developed the regional dimension of the strategy of preparing Romania for accession to the European Union.

Even though these acts seem to be encouraging for the success of implementing local autonomy principles, the facts still show a quite important gap between words and action in

this field, many mismatches, drawbacks continuing to exist. For example, various reasons (economic, political, etc.) make local taxes difficult to work effectively, their revenue base being pretty weak so far. Moreover, there is not a clear, systematic view on the real *instruments* which could be used to implement certain regional policies in the economic practice. The specific tasks established for the local public administration institutions should be revised too, so as to avoid overlaps, interferences and contradictions in terms of the goals to be achieved in a certain field of activity and the tasks of the institutions involved in.

Another issue of interest is that the local autonomy has not to be seen in absolute terms. The *co-operation* between central and local administration for carrying out programmes of national interest or local projects exceeding county/locality funding capacity should also be considered, as well as the need of co-ordination between local authorities with regard to their development policies. This one is required since the benefits of such policies will spill over into neighbouring counties/localities and “acting independently will lead to under-funding of local development, unless the free-rider problem can be overcome” (Armstrong, Taylor, 1993, p.24). The co-ordination between local authorities can create the basis for local economic development partnership, possibly to be combined with public-private partnership in local co-operative networks. The West European countries and U.S. experience offers interesting lessons, like that on the intergovernmental units (defined as combinations of counties that rarely finance, but frequently administer local development programmes) and the special districts (units that include a specific population utilising a particular service; examples are an airport district, a port authority or a school district) (see Leven, 1991).

These overall requirements related to improving the administrative framework for a decentralised regional policy were reflected in the Green Paper (1997), that proposed a *specific institutional structure* for regional development policy. Then, they were included in the Regional Development Act, recently issued.

The *central unit*, responsible for national regional development strategy and the implementation of regional development policy is *the National Council for Regional Development* (NCRD), subordinated to the Government of Romania. In short, the tasks of this institution are: the elaboration of the National Regional Development Programme; making proposals to the government regarding the amount of the National Regional Development Fund (NRDF) and its financial sources; making decisions regarding the allocation of funds from the NRDF to various Regional Development Funds (RDFs); administering the NRDF and monitoring the RDFs; making proposals for legislation and new regulations in regional

development; stimulating co-operative actions at regional level in order to reduce regional disparities, to diminish or eliminate the specific problems of some critical areas. The executive, operational body of the NCRD is *the National Regional Development Agency* (NRDA).

The idea of decentralising parts of the responsibilities for regional development policy to regional/local level has led to the establishment of regional councils and regional agencies, with specific responsibilities towards both the NCRD and NRDA on the one hand and the region on the other hand. The latter ones refer to: defining and implementing the regional development programme; obtaining funding from the NCRD necessary for the implementation of regional development programmes; managing the RDF for tasks that can be best solved at local level.

Other proposals, already started being implemented, focus on defining the basic units for regional policy, namely development regions and priority areas.

The *development regions* (eight in total) will be a result of grouping the counties in larger units with complementary development level/profile. They will be also able to function as statistical regions, as a response to mid/long term purposes of integration in the Nomenclature of Territorial Units for Statistics (NUTS) of the EU.

The *priority areas* have been already identified by regrouping communes and cities of similar problems, as follows: poverty areas (the Moldavian Tableland, the Romanian Plain, Salaj county, Bistrita Nasaud county, etc.); industrial decline areas (metallurgic industry (Hunedoara, Banat), oil and chemical industry, manufacturing industry (Ploiesti, Pitesti), mining areas (Jiu Valley, Sub-Carpathians – Oltenia)), soil degradation areas (Vrancea, Buzau), highly polluted areas (Copsa Mica, Zlatna, Baia Mare), complex problem areas (Apuseni Mountains, Delta of Danube).

According to a governmental ordinance the areas confronted with the most severe problems in terms of industrial structure, unemployment, infrastructure, etc. may apply for a special status, that of *assisted areas*, enabling them to benefit from certain advantages such as: customs taxes refund for raw materials, equipment, know-how imported for investments and production activities carried on in these areas; exemption from the payment of profit tax and/or taxes for modifying the destination of pieces of arable land (needed for new investments); grants for stimulating the exports, foreign credit guarantees, public-private partnership in local investments, and so on.

All these changes, occurred within the general context of structural reform, make it necessary and possible to address the *priority objectives and actions* of regional policy in a new

conception, according to market economy principles and the tendency of increasing regional competition.

Thus, considering the clear option for decentralisation, the regional (local) efforts to foster socio-economic development aim at turning to good account the natural advantages of local economies, in accordance with *indigenous development* objectives. Many initiatives related to indigenous development focus on the importance of establishing and supporting *small and medium enterprises* (SMEs), able to create a significant number of new jobs, to improve industrial relations and to provide a superior working environment for employees, to create a diversified and flexible industrial base by creating a pool of entrepreneurs willing and able to take risks, to stimulate competition for small and large firms alike, leading to an energetic enterprise culture, to stimulate innovation (cf. Armstrong, Taylor, 1993). Thus, SMEs can be seen as a tie lever between employment policy and regional development policy. Even though the big firms remain a key factor of restructuring the production system, from regional viewpoint the SME activity appears as a strategic one for their economy reconstruction, provided SMEs be included in a well-structured environment, in a coherent territorial network, involving links, relations, exchanges between them and other economic agents (like banks, higher education institutes, training centres, etc.).

Despite the absence of SME sector before 1990, at present it represents 99.2% of total active enterprises and accounts for 30% of employment and 50% of turnover. Considering the capital ownership type 97.4% of total SMEs are private, 0.3% are state-owned and 2.3% are mixed firms. In general terms, the private sector contribute 52% to GDP, 51.4% to exports, 48.2% to imports, 76.7% to retail and 59.8% to commercial services to population (cf. Raport anual, 1998).

The development of SME activity is stimulated by many international programmes (PHARE, UNDP, USAID, British Know-How Fund, Canadian Task Force, Dutch Government, etc.) by consulting and finance. As commercial activity is more risky, the financial support covers manufacturing, agriculture, construction, etc., considering their importance for the structural adjustment process as well. From regional strategy viewpoint the economic development initiatives such as providing factory premises, industrial sites, advisory services for SMEs and direct financial assistance to small firms have to be assessed in respect to their impact on local economy, taking into consideration that the multiplier effects of a given injection vary between different firms in different local authority areas.

Another basic issue in regional/local development programmes that needs the coordination of efforts at both regional and national level regards *large-scale infrastructure projects*. There are various kinds of infrastructure projects that have to be carried out as a pre-condition of ensuring a living standard compared to that existent in Western countries as well as of integrating Romania in the main European flows of goods and services.

As far as the transport infrastructure is concerned many ambitious projects have been already considered. Relevant examples are the Romanian sector of Trans-European North-South Motorway, railway modernisation both for passengers and for freight transport and further generalising of high-speed links (especially Inter-City and Euro-City), connecting them to North-South and East-West European corridors, the increase in international connections which is occurring in 'third-level' regional airports, turning to a better account the opportunities provided by the Danube-Black Sea channel, in connection with Romania's participation in Rhine – Main – Danube project.

The increasing investments in this sector generate conflicts in terms of land use – transportation infrastructure – environmental quality (spatial externalities), suggesting that the regional strategy and policy must be closely related to spatial planning, that attempts to co-ordinate the projects with spatial implications and to find solutions to the conflicts generated by these projects. This will lead to the development of modern approaches of intermunicipal planning and co-operation, for various considerations: on the one hand the risk that each public administration will intervene in its own interest should be overcome, on the other hand since the benefits of such policies will spill over into neighbouring counties/localities and acting independently will cause the under-funding of local development.

Taking into consideration Romania's attractive geographical location, the establishment of *free zones*, with their undeniable advantages, is also a priority of the next period. Business in these zones will focus on manufacturing (export-processing zones) or trade. The experience of other developing countries has shown that export-processing zones offer favourable investment incentives and trade conditions to foreign direct investors compared with the remainder of the host country. Therefore a special concern must be with a good match between foreign direct investment (FDI) and the needs of regional economies.

The question of *foreign investment* covers, however, a broader field of interest. FDI is still low for a country of Romania's size: in June 1997 cumulative FDI was only 2.4 bn USD, compared to Hungary (15.5 bn USD), Poland (13.3 bn USD) and Czech Republic (6.5 bn USD). The main five countries investing in Romania (during 1990 – 1995) are South Korea

(156.8 mil USD), Italy (114.6 mil USD), USA (114 mil USD), Germany (114 mil USD) and France (102.8 mil USD).

The regional distribution of foreign investment is rather polarised, five counties (Bucharest municipality (44.87%), Dolj (12%), Bihor (4.5%), Timis (4.4%) and Cluj (4.3%)) concentrating more than 70% of total FDI. At the opposite pole there are 8 counties (Covasna, Tulcea, Olt, Gorj, Mehedinti, Ialomita, Botosani, Teleorman) where FDI was completely insignificant (cf. RAMBOLL, 1996).

What should be done to overcome this situation ? From a broader perspective there is an important range of *barriers to FDI* in Central and Eastern Europe, of course different for each county and for each investment project (cf. Geenhuizen van, Knaap van der, Nijkamp, 1996): barriers in the labour market, socio-cultural barriers, barriers in infrastructure, barriers in distribution and logistics, etc.. These barriers cannot disappear at once but it is expected that the advances in creating a new political, institutional, economic, cultural environment will contribute to removing some of these barriers over time. In the specific case of Romania a recent survey by KPMG revealed that the main barriers perceived by foreign investors in Romania were stifling bureaucracy (71%), poor infrastructure (60%) and corruption (55%).

Indeed, the renewal of the organisational structures is a 'must' in Romania, in order to essentially transform the existing mechanistical structures into organic ones, more flexible, more effective and, certainly, less bureaucratic. Accordingly, there is an obvious need to change the civil servant's behaviour on the one hand and mentality and behaviour of the local communities on the other hand, so as to make it possible their involvement in promoting local development projects in accordance with their own interests. The modern approach in analysing local government is a *behavioural approach*: behaviour simply means what people do, as opposed to what they say they do or what they are supposed to do, in legal and institutional terms (see Stayner, 1980).

In Romania the long communist period had a very bad influence on the local communities' behaviour as well as on the whole society: the way of perceiving the democratic values, the attitudes have been perverted to a great extent, so that the transition to a democratic society has to face enormous challenges in order to transform the wrong mentalities and attitudes.

To conclude, the policy measures meant to improve the frame conditions for a sustained regional development should constitute a coherent 'package' including economic, legal, infrastructure, cultural and socio-political elements (cf. Funck, Kowalski, 1997). The

implementation of this package can result in creating a '*regional profile*', stressing and taking advantage of specific feature of each local area in an increasing regional competition.

V. Conclusions

Competitiveness and the 'regional problem' are closely related. Even though in a static competitive market there will be always winners and losers, it is important to recognise the difference between absolute and relative winners (or losers).

This paper has demonstrated that the disparities in the level of development of different Romanian counties have increased since 1990, as a result of replacing the factors that used to control the economy by market forces. But the basic question is whether after an initial period of growing interregional disparities a process of spatial economic convergence will start in longer run. Consequently, the main determinants of regional competition in Romania (and especially those related to the counties' potential) have been analysed, pointing out the main elements that can contribute to the restructuring of regional economies.

An integral regional strategy and policy, market oriented has been proposed as a possible answer to the need of creating a competitive economy, regionally oriented, able to ensure high living standards for its inhabitants.

The corresponding policy measures have to be included in a coherent framework of economic, legal, infrastructure, cultural and socio-political elements, aiming to define a 'regional profile' based on the advantages of each local area. Related to this matter and considering the particularities and priorities of transition, a major issue is applying regional policy in a decentralised context, that focuses on regional (local) efforts to foster socio-economic development: in other words, on indigenous development. The main idea in this view is that development is above all a local matter: "The success of a region will in the end depend upon on its autonomous capacity to take matters in hand, to organise various actors around common goals, to adapt and to successfully adjust to outside pressures. Ultimately, the sources of development lie in the region itself, in its people, its institutions, its sense of community, and, perhaps, most important of all, in the spirit of innovation and entrepreneurship of its population" (Polèse, 1998, p.14).

The efforts to increase a region's competitiveness, emphasising its identity, does not exclude the idea of interregional co-operation for supporting development projects which all partners can benefit from.

In a general view the local level of regional policy has to be tackled in relation with the policy conducted from the perspective of spatial organisation of the whole country or even of groups of countries, stressing the complementarity relation between competition and co-operation.

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