

Ileanu, Bogdan-Vasile; Goschin, Zizi; Constantin, Daniela-Luminita; Mitrut, Constantin; Cristescu, Amalia

Conference Paper

Trends in Restructuring NMS Regional Economies as Responses to Transformation, Crisis and EU Membership. A Spotlight on Suceava County

54th Congress of the European Regional Science Association: "Regional development & globalisation: Best practices", 26-29 August 2014, St. Petersburg, Russia

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Ileanu, Bogdan-Vasile; Goschin, Zizi; Constantin, Daniela-Luminita; Mitrut, Constantin; Cristescu, Amalia (2014) : Trends in Restructuring NMS Regional Economies as Responses to Transformation, Crisis and EU Membership. A Spotlight on Suceava County, 54th Congress of the European Regional Science Association: "Regional development & globalisation: Best practices", 26-29 August 2014, St. Petersburg, Russia, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/124467>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

54th CONGRESS OF EUROPEAN REGIONAL SCIENCE ASSOCIATION
August 26-29, 2014
SANKT PETERSBURG, RUSSIA

TRENDS IN RESTRUCTURING NMS REGIONAL ECONOMIES AS RESPONSES
TO TRANSFORMATION, CRISIS AND EU MEMBERSHIP. A SPOTLIGHT ON
SUCEAVA COUNTY IN ROMANIA

Bogdan Ileanu, Zizi Goschin, Daniela-Luminita Constantin, Constantin Mitrut,
Amalia Cristescu

Bucharest University of Economic Studies, Romania

DRAFT
Quotation not allowed

Abstract

The current research is concentrated on the following questions: What are the trends in restructuring Suceava's economy and which regional development factors were the most important (exogenous, endogenous, structural, socio-political ones, etc.)? Which is the relationship between social disparities and economic growth? Which regional/local policies proved to be the most successful for economic regeneration? How important was the external intervention for county's development? In order to respond these questions in-depth interviews were carried out with representatives of county and city office, national and regional authorities, Regional Development Agency, chambers of commerce, business associations, higher education institutions, and implementing authorities. Also, statistical socio-economic data were gathered and processed and strategic documents on development strategy, as well as various reports on evaluations of public policies have been studied. The study has been conducted within the GRINCOH FP7 project.

Keywords: restructuring, transition, crisis, EU financial assistance, Romania, Suceava county

JEL Classification: R11, R38

Introduction

In the last two decades the regional economies of the New Member States (NMS) had to face the transition to the market economy and the financial crisis challenges as well as to respond the requirements of the EU membership. All of these influenced the direction of the structural changes, with efficiency and equity combined in various proportions by the policy-

makers when addressing regional development objectives. This paper proposes a case study in Suceava county of Romania, as a relevant example of agricultural county, weakly industrialised, with underdeveloped market services and border location hindering economic growth in the past. On the other hand, during the communist regime Suceava was heavily industrialised but the industry strongly declined during transition to the market economy. European Union membership raised high expectations in Romania even before the actual accession time, in January 2007. The financial crisis that hit Romania in the last quarter of 2008 seems to have lasting effects on the economy, making difficult to estimate the economic benefits from accession to EU. Some general advantages such as enlarged and diversified financial resources, accelerated reforms, increased openness of the economy combine with risks such as vulnerability to external shocks. At present Suceava can be mentioned as a county with a very good absorption of the EU funds (above the national and North-East region (to which it belongs) average) and a number of projects above the region's average at county level.

The paper is structured in five main parts which seek to reveal the main aspects of economic trends and transformation which characterize the county of Suceava.

1. Location, history and basic socio-economic characteristics

Suceava, a county of 8,553.5 kmp, representing 3.6% from Romanian surface, is the second largest county in Romania after Timis. It is situated at the North Eastern border of Romania, in the Bukovina region. Its capital is Suceava city, which was the capital of the principality of Moldova from 1388 to 1565. The city was the capital of the lands of Stephen the Great (Stefan cel Mare), one of the main rulers in Romanian history, who died in Suceava in 1504. During the rule of Alexandru Lapusneanu, the capital was moved to Iasi (1565). Michael the Brave captured the Suceava city in 1600 during the in an attempt to unite the principalities of Wallachia, Moldavia and Transylvania, but he was defeated the same year and Suceava city failed to become the capital again.

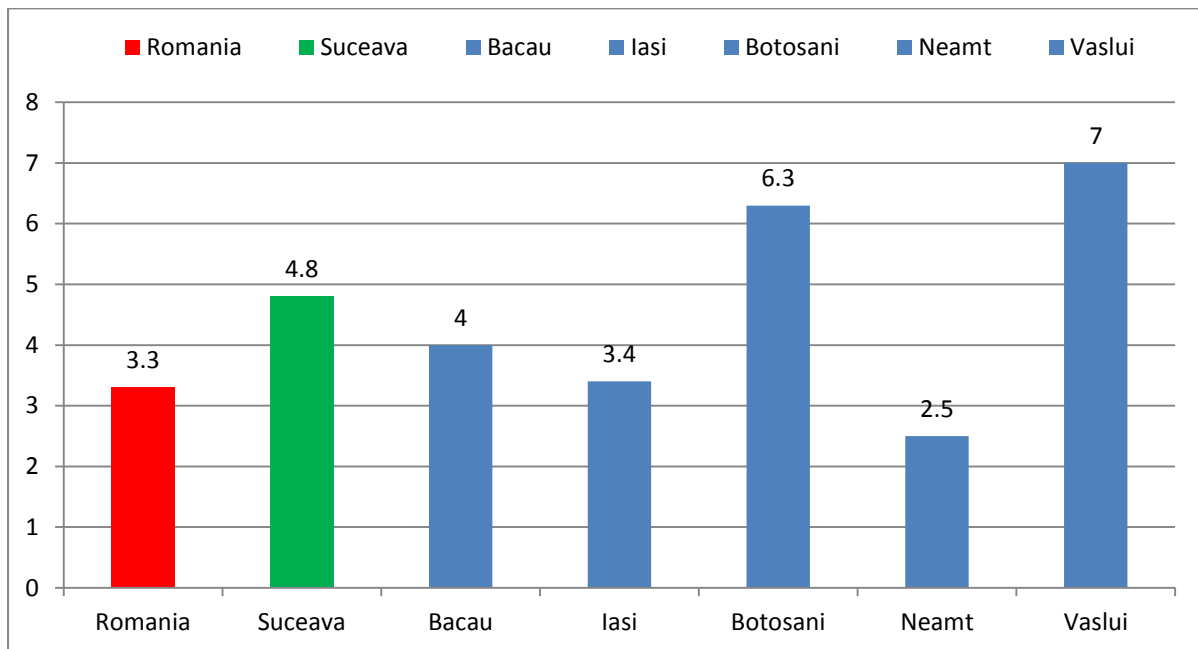
A large part of the county is covered by the mountains (66%) representing a sector from the Eastern Carpathians group. Here we have the highest altitude in Suceava (2202m). The main river crossing the county is Siret. The county's elevation decreases toward the east, with the lowest height (233m) in the Siret valley. The altitude decreases by almost 10 times from the mountains to the valley covering a variety of geographic forms.

In Suceava county there are five municipalities: Suceava, Falticeni, Radauti, Campulung Moldovenesc and Vatra Dornei, 11 towns and 98 comunes with 379 villages.

2. Economic trends in Suceava's economy

Before 1990 Suceava used to be a county with an important contribution to the Romanian economy. According the economic statistics the most important fields which contributed to the economic development were industry and agriculture.

Figure 1. Annual average change of industrial production in the North-East Region during period 1981-1989 (%)



Source of data: 1986 Yearbook - General Direction for Statistics and 1990 Yearbook - National Commission for Statistics.

Most of the North-East counties had in average better results in terms of industrial growth than the Romanian overall tendency, Suceava being a county which followed a tendency of growth above average. Another aspect which reveals the industrial activity in Suceava is represented by the number of employees in this economic sector. In Suceava, in 1989 the share of industry employees represented 51.5% of total employees in the county; only Neamt county had, in the same year, a larger share. In general, in that period in Romania, the share of employees in the industry sector represented 47.6% and the same share in N-E region was 50.5%.

Following the privatization of state property and the emergence of private-owned enterprises, the private sector increased gradually. Greater flexibility of private entrepreneurs has led to the development of economic activities in the service sector. For instance the passenger and freight transportation is now served mainly by private road transport companies, both to national and international destinations. Trade has also developed and many new hypermarkets and shopping malls have been built in recent years, especially prior to the crisis. Positive post-transition transformation is visible in the sector of wood exploitation (two of TOP 10 largest companies in the county are from Wood Industry), improvement of local production in the food industry, development of trade and tourism, as well as emergence of many new SMEs.

Industry (in particular manufacturing), the dominant sector in the county's employment, has been declining on the long-run while trade and other services are on the rise. Table 1 reveals that industry declined employment by 10 percentage points (p.p.), from 31.5% to 21% in twenty years, at national level and by 11 p.p.- from 27 % to 16 % at

Suceava county level, while in the NE region the share decreased from 28.8 to 16.8 % in the same period of analysis.

Table 1. Employment structure at different levels by main sectors (%)

Main Economic Sectors	National average		NE Region		Suceava county	
	1992	2011	1992	2011	1992	2011
Agriculture, hunting and forestry	32.92	29.191	42.2	41.541	45.42	46.07
Industry (including minning quarring and manufacturing)	31.5	21.0	28.8	16.8	27.1	15.90
Manufacturing	27.4	17.8	25.7	14.5	23.4	13.54
Constructions	5.6	7.3	4.2	6.06	4.03	4.2
Trade	7.3	13.8	5.6	12.1	5.1	12.0
Other services	22.8	28.7	19.2	23.5	18.35	21.8
Herfindahl Index/Onicescu Informational Energy	0.268	0.236	0.303	0.274	0.318	0.301
Total	100	100	100	100	100	100

Source: authors' computation based on NIS data.

Employment in agriculture holds the highest and share in total and was stable at about 46%, well above the national average, for two decades (Table 1).

A particular analysis shows that the most dynamic sectors in recent years were wood exploitation and processing, food industry, especially local livestock products, trade and services, and the financial sector. Tourism expanded and significant investments were made in guesthouses and hotels. Tourism has greatly developed in hill and mountain areas. For example, trade share in employemnt doubled at all levels (country, region, county) from 1992 to 2011. The Herfindahl Index of concentration/diversification has no spectacular changes comparing structures from 1992 and 2011 analysed at the same level. A particular analysis by level of the values from Table 1 shows that concentration is increasing while lowering the territorial level. Highest value corresponds to the county level and lower value to the national level underlining a higher vulnerability of the local economy.

On the other hand the major part from the gross added value is coming from trade and other services. Even if agriculture is the largest branch as employer, due to a low productivity and efficiency it is only on the third place as gross added value formation in the county (see Table 2)

Table 2. Gross value added by sector (%) in Suceava

Sector	2007	2008
Agriculture	16.90%	14.40%
Industry	21.70%	21.00%
Construction	7.30%	7.90%

Trade and services	54.10%	56.70%
Herfindahl index	0.372	0.392
Total	100.00%	100.00%

Source: own elaboration based on NIS data.

Retail owns significant shares in both turnover and total number of employees, as a large part of the companies in this sector are located in the villages of the county (in some cases being nearly the only ones in locality). In 2009 wholesale and retail hold 46.99% of the total turnover of companies in the county and 29.75% of their total staff, while manufacturing holds 26% of total turnover and 28.79% of their total staff.

3. External factors (EU membership and foreign investments) and their impact on regional development and social inequities

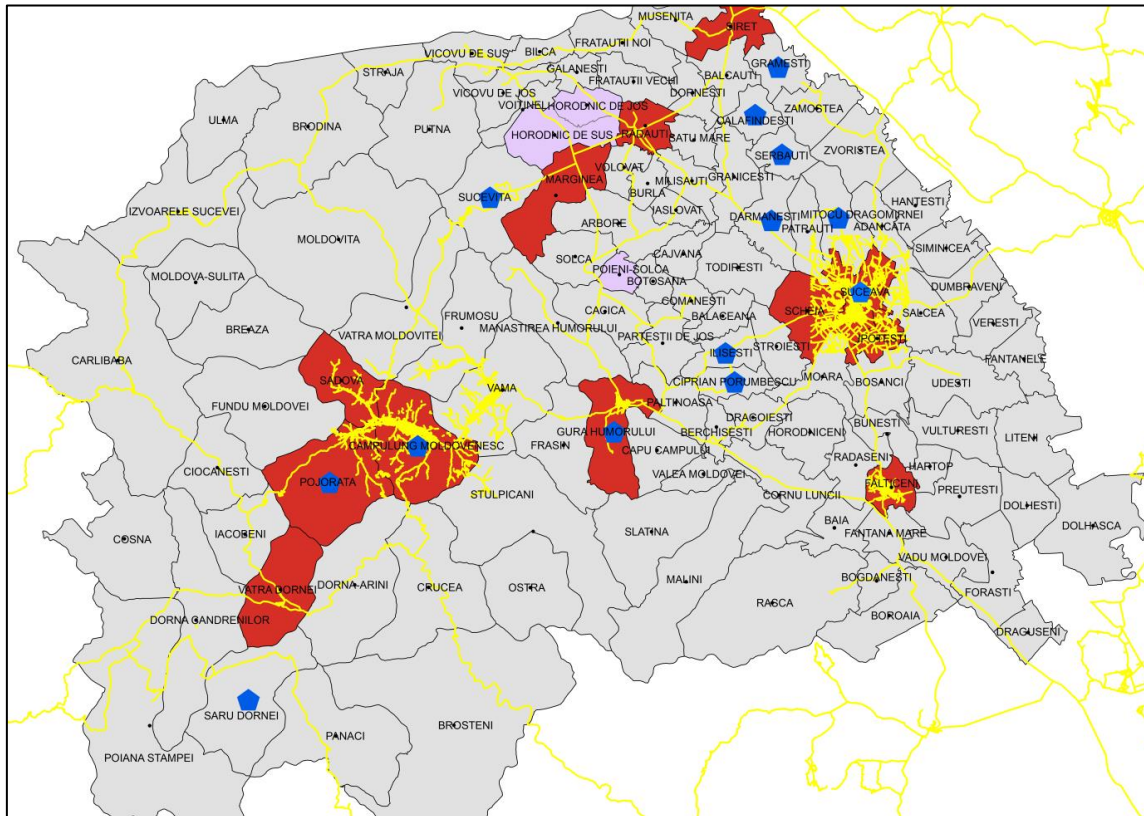
The impact of EU membership on regional development

European Union membership raised high expectations in Romania even before the actual accession time, in January 2007. The financial crisis that hit Romania in the last quarter of 2008 seems to have lasting effects on the economy, making it difficult to estimate the economic benefits from accession to EU. Some general advantages such as enlarged and diversified financial resources, accelerated reforms, increased openness of the economy combine with risks such as vulnerability to external shocks.

One of the most beneficial effects of EU membership should have been increased foreign direct investments that should have promoted innovation and growth but high-tech FDIs account for a very low percent of the total and did not bring the sought after technological advancement. Another potential gain from EU membership should have been the decrease in regional disparities, mainly due to structural and cohesion funds that should have supported a more rapid development of the poorer regions such as Suceava.

However, the reality shows that EU membership could not stop the inequalities' deepening till now, the most developed region – Bucharest-Ilfov having a much higher growth than the rest of the country. As structural and cohesion funds have had a low absorption rate in Romania so far (about 33.47% at the end of 2013), it is hard to see their full effects before 2017, considering that the funds for the previous programming period can be spent until 2016 according to the n+3 rule. At present, analyzing the absorption of the EU funds in Suceava, the statistics show that they are rather absorbed in more developed areas of the county.

Figure 2. Territorial distribution of TOP 10 projects in Suceava county by beneficiary territorial unit



Legend of the map:

- red areas represent localities with high development index¹;
- dark areas are representing localities with low development index;
- blue hexagones represent the localities who benefit by the top 10 EU-funded projects of the county;
- yellow lines represent the main roads of the county.

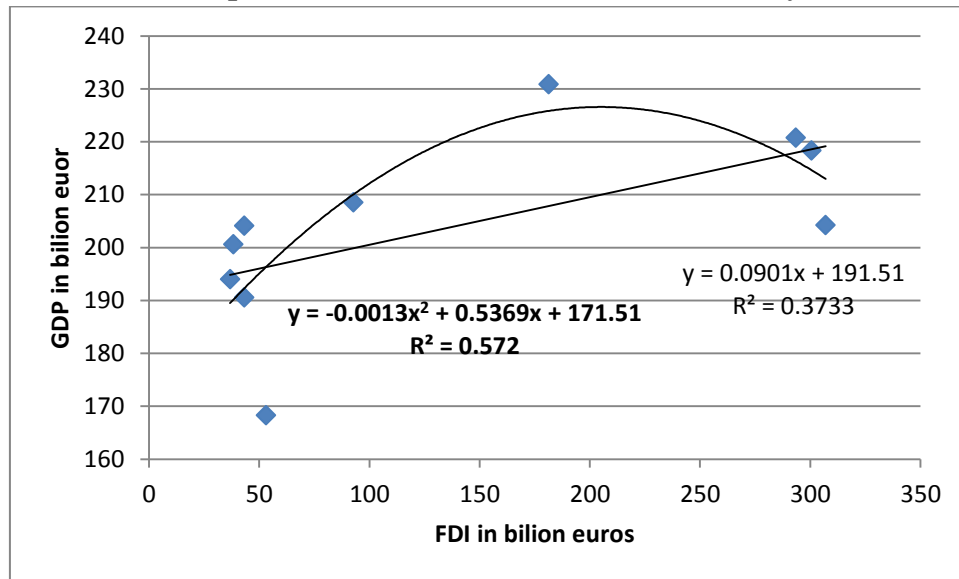
From the above map it can be noticed that the main projects of Suceava were developed around higher developed areas such as Suceava, Gura Humorului, Campulung Moldovenesc or along of the most important road routes which in facts connect the most developed areas or tourism key points.

4. The impact of foreign investments on social inequality and local development

FDIs could be another reason in trend changes of economic growth but also for regional and local disparities. A linear regression analysis shows a moderate relationship between foreign investment stock and GDP evolution in period 2001-2010.

¹ According to Sandu Index (Sandu D., 2008).

Figure 3. The relationship between FDI and GDP in Suceava county



Source: own elaboration

The relationship between FDI and GDP in Suceava county is defined by two regression models as presented below.

Model 1: linear dependence, $GDP = a_0 + a_1 FDI + u$, where u defines the influence of other factors and

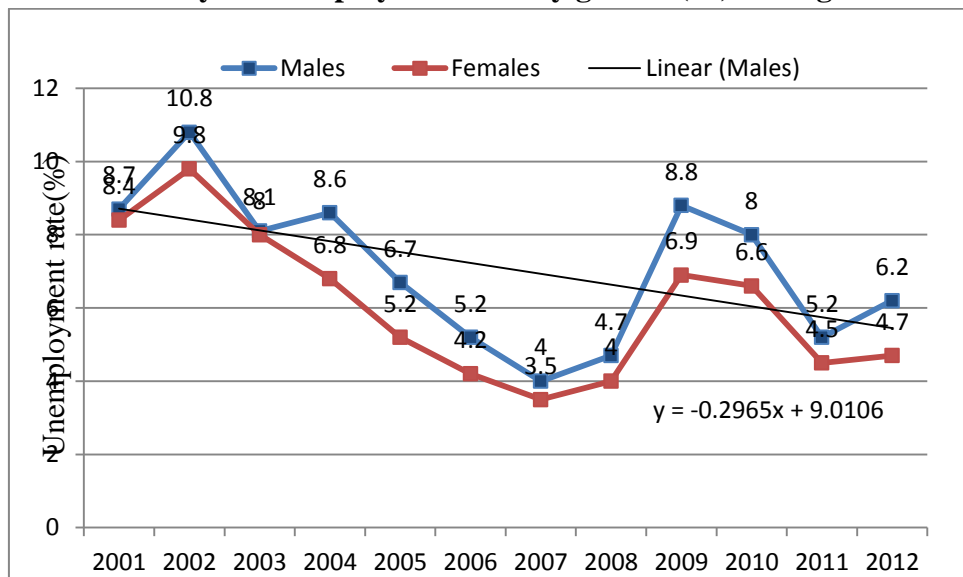
Model 2: quadratic dependence, $GDP = b_0 + b_1 FDI + b_2 FDI^2 + u$

The analysis of results shows that the quadratic model fits better the relation between the two economic variables. The impact of these results from the economic point of view could be synthesized as follows:

- the impact of foreign investments is positive in long run confirming that the external factors through FDI determine economic growth;
- the moderate-low values of R squared are underlying that there are other factors which have an important impact on local economies;
- the valid quadratic model seems to be more performant only because of presence of crisis period. The crisis period determined an inflexion point shifting the relationship between variables.

Another analysis refers to gender inequality in Suceava county as an example of social disparities. A lot of international studies are showing the positive impact of foreign investments on reducing social inequalities. In our case, in Suceava county, where the FDI inflow had a continuous growth, there are two major impacts, represented in Figure 4.

Figure 4. The tendency of unemployment rate by gender (%) during 2001-2012



Source: own elaboration

In long run, as it was expected, the impact of FDI had a positive impact on reducing general rate of unemployment. The linear tendency shows that unemployment rate decreased from 10% to 6% (in average) in the last 12 years.

A particular analysis on both female vs. male tendencies could be split in two major parts:

(i) during 2001-2008 the gap between male vs. female unemployment rate had a sinuous evolution with a small difference in 2001 followed by a local maximum difference in 2004, but with a decrease tendency between 2004 and 2008 which reveals also the gap reduction;

(ii) after the crisis the foreign investment had not enough power to keep reducing the inequalities and gender difference regarding unemployment rate increased from 0.55 p.p. in 2007 to 1.5 p.p. in 2012.

5. The keyfactors on the local development

The main factors that supported the development process of Suceava county in recent years were the exogenous ones such as export, FDIs (especially in trade and the woodworking industry), European grants and other funding. Endogenous factors such as innovation and entrepreneurship played a smaller part in the development. Other factors having a positive impact on economic growth were the reorganization of the activities of large companies in the food industry to adapt to the market economy, the sustainable development of large firms in the construction and installation sector, the emergence of many new SMEs in the food industry as well as in tourism and also the direct investments in small business based on remittances sent by Romanians working abroad. Manufacturing and agriculture had the largest contributions to the Gross Value Added in Suceava in recent years.

The large agricultural area (40.8% of the total area of the county), which is 96.4% private and the high share of agriculture and forestry in the employed population of the county (45.42%) supported the development of agricultural activities.

The border location of the Suceava county influences its economic development on the long run owing especially to economic interactions with Ukraine. Following Romania's accession to EU, traditional economic relations Eastern partners (including Ukraine) weakened, leading to the loss of significant business opportunities. Institutions such as the Chamber of Commerce and Industry Suceava and the Bilateral Chamber of Commerce Romania - Ukraine took measures to counter this trend and prompted the participation of business representatives in exhibitions, fairs and other economic events in the border area in order to promote their products and services. Business meetings of Ukrainian companies with Romanian partners are frequently taking place under the umbrella of Bilateral Chamber of Commerce Romania – Ukraine, Chamber of Commerce and Industry Suceava, the Chamber of Commerce and Industry of Rivne Region, and the Ukrainian Embassy in Romania. The areas of interest include light industry, food, agriculture, construction, transport, etc.

Regional Office for Cross Border Cooperation Suceava was part of some Joint Operational Programme like ENPI-CBC 2007-2013 Romania-Ukraine-Moldova or Hungary-Slovakia-Romania-Ukraine Cross border Cooperation Programme 2007-2013. The Programmes are funded by the European Union and provides the framework for the implementation of cross-border activities in the context of the European Neighborhood Policy with the aim to promote sustainable economic and social development in the border areas and to offer the partner countries the opportunity to participate in various EU activities. The Managing Authority of the Joint Operational Programme "Romania - Ukraine - Republic of Moldova 2007-2013" has already contracted several large scale projects, such as Prevention and flood protection in Siret and Prut river basins, through the implementation of a modern monitoring system with automatic stations - EAST AVERT.

Suceava and Cernauti have been twin cities since 1999, both of them belonging to the Upper Prut Euroregion. Another relationship between major cities, as twin cities, from the region was established between Suceava and Sosnowiec from Poland.

Since the accession to the EU and the adoption of more severe customs regulations, the traffic of small amounts of goods carried by individuals across the border decreased at the expense of many local small-scale businesses. However, the classical bazaars can be found in both Suceava and Cernauti, with goods of regional sources, from Turkey to Poland, from Caucaz region to Central Europe. There is also an important interest of the Ukrainians in shopping in Suceava (at Carrefour, Metro, Kaufland, Real, Iulius Mall) as well as a tourist interest in spending weekends in Suceava tourist destinations.

Can be also mentioned that in 2014, the world famous polish brand, Farmona, became active on the Suceava market.

An academic partnership between “Yuri Fedorovici” University of Cernauti and “Stefan cel Mare” University of Suceava has been established as well.

6. Conclusions

The geographical location of Suceava county at the North border of Romania induces some benefits but also constraints. Position in the territory could be a benefit taking into account the relationship with Ukrainian or even Polish and Moldavian neighbours but, at the same time, the lack of infrastructure, the distance to a high-way or fluvial/maritime ports could be important barriers in economic development.

There is a strong evidence of structural changes. Suceava's economy changed in the last 20 years from a dominant industry-agriculture economy to a trade-agriculture economy.

The impact of EU funds and general FDI is positive but so far inequalities increased instead of being reduced.

Acknowledgement. This paper draws on the research funded from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement "Growth-Innovation-Competitiveness: Fostering Cohesion in Central and Eastern Europe" (GRINCOH) no. 290657/29.03.2012. The research has been also co-funded by UEFISCDI Romania, "Capacitati" programme, contract no. 200/2012.

7. References

Government of Romania (2007), Regional Operational Programme 2007-2013, Final Version, Ministry of Regional Development, Public Works and Housing, available at <http://www.mdrl.ro/documente/POR/ROP%20Final%20Version.pdf>

GRINCOH (2014), "Growth – Innovation - Competitiveness. Fostering Cohesion in Central and Eastern Europe", European Commission, FP7 Research Project, available at <http://www.grincoh.eu/>

*** www.inforegio.ro

Sandu, D. (2008), <https://sites.google.com/site/dumitrusandu/bazededate>

*** TEMPO: <https://statistici.insse.ro/shop/>