

ENHANCING ECONOMIC COMPETITIVENESS IN ROMANIA THROUGH COHESION POLICY AND THE STRUCTURAL FUNDS

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Despite considerable progress in terms of macroeconomic performance, Romania's international rankings on competitiveness suggest several weaknesses, especially related to market efficiency, business sophistication, education, technology readiness and innovation. Revealed Comparative Advantage and Intra-Industry Trade analyses outline that the Romanian economy is still labor intensive, thus needing capital infusion in order to increase its competitiveness within the EU. In order to benefit from the EU cohesion policy, Romania has adopted The Sectoral Operational Programme "Increase of Economic Competitiveness", which is one of the seven instruments (operational programmes) adopted by Romania and under the Convergence objective; the programme sets out to achieve the priorities of the National Strategic Reference Framework, derived from the National Development Plan 2007 – 2013, which aims to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania, and to enhance economic competitiveness in Romania.

Key-words: cohesion policy, structural funds, competitiveness

Convergence towards the EU is the paramount objective of Romania in terms of economic development. If nominal and institutional convergence is required in order to maintain stability and create a functional framework, real convergence is the path to prosperity. This section is aimed at investigating the convergence progress and the status of competitiveness factors, as well as assessing the opportunities for enhancing competitiveness with the aid of the structural funds.

Over the last few years, Romania has remarkably improved its macroeconomic framework, after finding itself close to financial crisis in 1999. Real gross domestic product (GDP) growth has averaged 6% over the last six years and is expected to follow the same trend in the medium term. As a result, Romania seems well-positioned for a fast catching-up trajectory towards the EU.

Until a few years ago, the country's sustained economic recovery, following the late 1990s recession, was led by an export-driven economic growth. This was facilitated by the managed floating policy pursued at that time by the National Bank of Romania (NBR), which was designed to prevent the excessive real appreciation of domestic currency and thus preserved the country's export competitiveness.

Over the last years however, investment and domestic consumption have taken the lead role in keeping the momentum going, being the main engines of economic growth. The growing attractiveness and easier access to domestic credit by households have led to an increase in their disposable income and this pushed up private consumption. Structural constraints on the domestic production side of goods and services meant that domestic supply could not accommodate the upward demand pressure. As a consequence, excess demand, helped also by a real appreciation of the RON, has continued to expand. In part, this trend reflects years of under-investment in which the high cost of borrowing and limited access to credit prevented households to meet their investment needs, most notably in durable goods, whereas economic agents found capital purchases extremely costly.

Disciplined monetary and fiscal policies pursued over the last years have improved considerably the macroeconomic picture. Over the last two years, domestic consumption has taken the lead role in keeping the economy growing, being the main engine of economic growth.

In spite of positive achievements however, the macroeconomic outlook is still vulnerable to a number of factors. The Romanian economy needs more fixed investment and a better infrastructure for sustaining average growth rates of above 6% yearly, on longer term. Public support for productive investment may consolidate the current convergence process and ensure increased competitiveness.

Human capital scarcity and propensity for migration may affect the economy if the economy will not become more capital intensive. Finally, structural constraints on the domestic production of goods and services continue to exist. As a consequence, the persistence of excess demand has fuelled imports growth continuing to widen the current account deficit.

In what regards competitiveness, Romania international rankings suggest several weaknesses, especially related to market efficiency, business sophistication, education, technology readiness and innovation. Revealed Comparative Advantage and Intra-Industry Trade analysis outline that the Romanian economy is still labor intensive, thus needing capital infusion in order to increase its competitiveness within the EU.

The Sectoral Operational Programme “*Increase of Economic Competitiveness*” (further referred to as SOP IEC) is one of the seven instruments (OPs), under the Convergence objective, for achieving the priorities of the National Strategic Reference Framework (NSRF) derived from the National Development Plan 2007 – 2013 (NDP), which aims to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania, and to make the correct and appropriate linkages to the European policies and the Lisbon Strategy for growth and job creation.

SOP IEC directly addresses the first priority of the National Development Programme “Increase of economic competitiveness and development of the knowledge-based economy” and the second priority of National Strategic Reference Framework i.e. “**Increasing the Long Term Competitiveness of the Romanian Economy**” and contributes, to different extents, to the implementation of all NSRF priorities.

The Operational Programme Increase of Economic Competitiveness was elaborated under the coordination of the Managing Authority for SOP IEC – the Ministry of Economy and Finance (MEF), and is the result of the partnership consultations both with the strategic partners (ACIS within MEF, other Managing Authorities coordinating other OPs, institutions designated as Intermediate Bodies, other line ministries, and agencies, social partners, civil society organizations, potential beneficiaries, other stakeholders involved in this field).

The implementation of the programme is under the responsibility of the Managing Authority for SOP IEC within MEF. In order to carry out the programme efficiently, the Directorate for SF Management within the Ministry for SMEs, Trade, Tourism and Liberal Professions (former National Agency for SMEs and Cooperatives), Ministry of Education, Research and Youth – National Authority for Scientific Research, Ministry of Communications and Information Technology, and Ministry of Economy and Finance - Energy Policy General Directorate were designated as Intermediate Bodies (IBs) for SOP IEC.

The starting point for the formulation SOP IEC is the analysis of the current situation of entrepreneurship and innovation, with special emphasis on the small and medium-sized enterprises sector (SMEs), on resources for the RDI sector, on ICT sector, and on energy efficiency and environment protection issues in the energy and industry sectors.

Further on, a SWOT analysis is carried out, on the basis of which, the development strategy is built. The SOP IEC also contains a description of the priority axes, key areas of intervention and proposed operations, as well as financial tables, implementation provisions, partnership arrangements.

The general objective of SOP IEC is the increase of Romanian companies’ productivity, in compliance with the principle of sustainable development, and reducing the disparities compared to the average productivity of EU. The target is an average annual growth of GDP per employed person by about 5.5%. This will allow Romania to reach approx. 55% of the EU average productivity by 2015.

The specific objectives are:

- a) **Consolidation and environment-friendly development of the Romanian productive sector**

The key point of this specific objective is the support to the upgrading and innovation of existing enterprises leading to cost reduction and subsequent productivity gains, and the creation of new ones, especially SMEs in the manufacturing and business services sectors. The valorization and the qualification of the productive equipment, based on its enlargement and upgrading, the innovation of productive processes and the support for the adoption of international standards, foster the increase of the products range. Improvement of specialized advisory offer and the support to internationalization give a contribution to the process of increasing the market share.

- b) **Establishment of a favourable environment for sustainable enterprises’ development**

The key point of this specific objective is to provide a favourable framework for entrepreneurship by reducing the existing constraints in the areas of market failure - access to finance, innovative financial instruments, availability of qualified services, cooperation among firms – for the creation of new enterprises and for the development of the existing ones. The fulfilment of the two above objectives may be quantified by the increase of SME's share within GDP by 10% in 2015.

c) Increase of the R&D capacity, stimulation of the cooperation between RDI institutions and enterprises, and increase of enterprises' access to RDI

The aim of this specific objective is to improve the overall performance with regard to RDI along with the productivity of enterprises through increasing the rate of innovation and the economic benefits from the exploitation of knowledge. The key points of this objective are the funding of R&D projects that will generate results directly applicable in the economy, the upgrading and development of RDI capacity and infrastructure, the improvement of the quality and range of the supply of innovative services, the stimulation of the potential demand of innovation coming from enterprises. The achievement of this objective will contribute to Romania's aim to increase the gross domestic R&D expenditures (GERD) to 2% of GDP by 2015.

d) Valorization of the ICT potential and its application in the public (administration) and private sector (enterprises, citizens)

The key points are the improvement of infrastructure endowment in market failure areas (underserved rural and small urban areas), development and increase of the efficiency of public electronic services (e-government, e-education and e-health) and increase the ICT uptake by SMEs and development of a dynamic E-Business environment with rapid impact on the cost structure of economic operators. The Commission communication „Bridging the Broadband Gap” rightly considers that wide broadband coverage in Europe is crucial for fostering growth and jobs. Therefore the target is the increase of broadband penetration rate in Romania (number of broadband connections/100 inhabitants) from 5% in 2005 up to 40% in 2015²⁹, ensuring the uptake of ICT in the productive system, in the administrative processes, in day-to-day life, and development of a new and better generation of products and services, able to compete on a globalised market.

e) Increasing energy efficiency and security of supply, in the context of combating climate change

The key points are to contribute to reducing the energy intensity through the implementation of new technologies in order to increase productivity, especially to industrial end-users and to increase the use of renewable energy sources. An important support will be given to implementing new technologies in order to reduce emissions of energy plants (essential to the National Energy System), and to diversification of interconnection networks in view of strengthening security of energy supply, which lies at the basis of any sound economic system. The envisaged objective is to contribute to the following national targets: the reduction of the primary energy intensity by 40% compared to 2001, the 33% share of electricity produced from renewable energy resources in the gross national electricity consumption by 2010 and the reduction of emissions in the energy sector according to the National Programme for the reduction of sulphur dioxide (SO₂), Nitrogen Oxide (NO_x) and dust emissions from large combustion plants.

Taking into account both the identified possibilities for improvement of the competitive position of Romanian enterprises to cope with the challenge and to be able to use the opportunities arising from operating on the European Single Market and the areas eligible for the ERDF support, the following Priority axes have been identified in the SOP IEC:

Priority Axis 1: An innovative and eco-efficient productive system

Increasing productive investments and improving enterprises access to market according to the principles of sustainable development are the key conditions of the competitive functioning of Romanian economy in the European Union. The second economic accession criterion established in Copenhagen in 1993 highlights the imperative necessity that Romanian enterprises must be prepared to face the competition pressures within the Internal Market. The Internal Market competition may be beneficial to local enterprises only if they will manage to profit from the advantages created by the free movement of goods, services, people and capital. Despite certain progresses in the SMEs sector, which Romania registered in implementing the European Charter for Small Enterprises, difficulties are still encountered, due to limited

financial resources, significant technological gap and the lack of know-how in business development, that hinder the capacity of SMEs to rapidly adapt to the Internal Market requirements.

In this context, the specific objectives of axis 1 are: the consolidation and sustainable growth of the Romanian productive sector and the establishment of a favourable environment for enterprises' development

Key Areas of Intervention are:

- Productive and environment friendly investments and preparation for market competition, especially of SMEs
- Access to finance for SMEs
- Sustainable entrepreneurship development

Priority Axis 2: Research, Technological Development and Innovation for competitiveness

The low level of funding (both public, and private) for research, technological development, and innovation (RDI) had as direct results the obsolete RDI infrastructure, the decreasing number and increasing average age of researchers, and the low performance of RDI activities. The lack of funding also hindered enterprises' access to RDI activities and technology transfer. These weak points together with the low participation of the private sector in funding RDI activities resulted in a large technology deficit of Romanian companies and in a low innovation score in enterprises.

In this context, the objective of priority axis 2 is the increase of R&D capacity, stimulation of cooperation between RDI institutions and enterprises, and increase of enterprises' access to RDI.

Key Areas of Intervention are:

- R&D partnerships between universities/research institutes, and enterprises for generating results directly applicable in economy
- Investments in RDI infrastructure and related administrative capacity
- RDI support for enterprises

Priority Axis 3: ICT for private and public sectors

In the new global economy, taking into consideration the need to reinforce competitiveness at different levels, the Romanian companies, public administrations and other economic and social players are facing major challenges. Productivity growth may be considered a decisive factor for a successful market development and the positive impact of the ICT on this is well known.

In this context, the specific objective of axis 3 is to support the economic competitiveness through increasing the interactions between the public sector and enterprises/citizens by fully exploiting the ICT potential. The main actions to be carried out in order to achieve this objective address the need to improve the ICT infrastructure in market failure areas (under served rural and small urban areas), to develop and effectively use the electronic public services and to develop a secure and dynamic e-business environment. From this perspective, it will be necessary to introduce and sustain innovative productive systems in the administrative process, in day-to-day life and to develop a competitive market for a new generation of products and services.

Key Areas of Intervention are:

- Supporting the ICT use
- Developing and increasing the efficiency of electronic public services
- Sustaining the E-Economy

Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change

An efficient, flexible, safe and clean energy infrastructure is a necessary precondition for economic development as it boosts productivity, and thus competitiveness. More efficient energy production,

transport and distribution, and end use, entail the reduction of both primary and final energy. As a direct result, final consumers would benefit from both a better quality and security of supply, implicitly leading to increased productivity. In order to improve energy efficiency, a comprehensive and streamlined set of measures are envisaged for each part of the chain: production, transportation, distribution, final use of energy: maintenance of the production capacity; improving the quality parameters of transportation and distribution grids; the improvement of energy efficiency at the end user

Key Areas of Intervention are:

- Efficient and sustainable energy (improving energy efficiency and environmental sustainability of the energy system)
- Valorisation of renewable energy resources for producing green energy
- Diversification of interconnection networks in view of strengthening security of energy supply

Priority Axis 5: Technical Assistance

The technical assistance priority axis of SOP IEC provides specific assistance for project preparation, monitoring, evaluation and control as well as communication activities, only with regard to the specificity of SOP IEC. The technical assistance of SOP IEC is complemented with the horizontal support of the Operational Programme Technical Assistance, which provides assistance for the common needs of all the structures and actors involved in the management and implementation of the structural funds and ensures the general public awareness on the role of the Community support. Technical Assistance (TA) will assist in the implementation and monitoring of the programme. The priority axes of SOP IEC are in full compliance with the lines of action of the Commission's proposal regarding the framework for Competitiveness and Innovation 2007-2013, and take into account the guidelines put forward by the EU Council for the cohesion policy for 2007-2013. The ERDF contribution to SOP IEC budget for the 2007-2013 programming period is 2,554 million Euros, which represents 13.3% of the Community contribution to the NSRF.

The objective of this priority axis is to provide support for the programme implementation process and effective use of the Community financial input and national co-financing through: ensuring high quality and coherence of key areas of intervention aimed at programme implementation; providing compatibility of the realised projects with the acquis and EU policies; organisation of a system of information and promotion of programme objectives and operations.

Key Areas of Intervention are:

- Support to SOP IEC management, implementation, monitoring and control
- Support for communication, evaluation and IT/other equipment acquisition

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