



A Parallel on the Results of Cohesion Policy in Stimulating the Regional Economic Growth in EU

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ABSTRACT

This paper provides a relevant and balanced analysis of sustainable regional development, taking into consideration the reduction of disparities in economic development between regions and the evolution of the cohesion strategy. The first part of the essay converges on meeting the purposes of diminishing economic and social discrepancies, by promoting cohesion policy, which aims to increase economic growth. The main instruments and mechanisms underlying the implementation of the cohesion policy are mainly the reallocation of chunk of the Community budget attained through the subsidy of the Member States to disadvantaged regions, advising solutions such as: lowering the inflation rate, reducing unemployment, increasing per capita income, creating new jobs, liberalizing the movement of goods and services markets. I started from some ideas, which would allow the achievement of the objectives of stimulating the economic growth on the existing situation, but also a simulation for the next period, considering that the following factors suggested by me will bring an extra performance in the economic analysis. These factors aim to support investment in innovation or renewable sources, and physical capital, technical progress, human and public capital have a positive impact on the development of all regions, thus contributing to a more competitive and balanced Union.

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1. Introduction

Explaining the role that regional development and economic cohesion play in the progress of the European Union is an exceptionally dense topic that is the subject of all-encompassing reports that the European Commission formulates recurrently. These reports depict existing data on the outcomes achieved in endorsing economic and social cohesion at a sectoral or regional stage.

The current analysis attempts to emphasize how the development approach at regional level and the economic and social cohesion program may be found on the European agenda and a description of their role. In this approach, we start from the establishment of conceptual aspects on regional policy, cohesion, regional convergence, the main trends of the current convergence process, all of which are part of the fundamental objectives pursued by EU Cohesion Policy, to reduce the economic development and social development discrepancies between regions, and the smoothing of their residents' living standard.

2. Regional Improvement Strategy

Reducing discrepancies between regions is a key objective of regional development policy. To accomplish this, investigations should be built based on specific evaluation techniques and methods. A frequently used technique of evaluating the assessment of regional discrepancies is the computation and examination of the degree of concentration / specialization of activities at the district stage.

Overall, the purposes of regional development strategy consider a number of issues directly related to certain social communities: instilling personal comfort, equity, social balance, measures used to increase real income per capita, full employment, improving individual's work and lifestyle, income security, etc. Viewed in a national context, the region is influenced and influences, in turn, the other regions, so it is not independent.

Regional development strategy is one of the most significant and complicated guidelines of the European Union, a status that stems from the fact that, throughout its aim of diminishing economic and social discrepancies between the various areas of Europe, it operates on significant parts for progress, such as economic growth and the SME segment, transport, agriculture, urban development, environmental protection, employment and tuition, tutoring, gender parity, etc.

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The chances of success for different companies, and hence the ability of some regions to attract investors, depend on several factors, both internal and external. The reduction of regional imbalances to the establishment of the single market has been accomplished by each separate government inside its own frontiers. Regional discrepancies are now an issue for the whole European community, particularly after all hurdles to the free interchange of goods, services, people, and capital have been removed, and less-favored regions and groups face new obstacles that will imply more and more intricate solutions, at national and community level. Such solutions can be provided specifically through regional development policy, which, through its own tools and mechanisms, offers real opportunities for a balanced development of disadvantaged regions.

Elaborated as a strategy of cohesion at European level, regional policy is largely grounded on financial cohesion, namely the rearrangement of part of the Community budget attained through the involvement of Member States to less wealthy districts and social groups. In fact, it can be disclosed that regional development strategy has a resilient instrumental nature, and based on its solidarity funds (Cohesion Fund, Structural Funds, Solidarity Fund) participates to the funding of other sectoral strategies – such as agricultural strategy, social strategy, environmental protection strategy.

The European Union's regional development strategy is presently grounded on financial solidarity, which allows about 35% of its budget from the richest Member States to be redirected to the most disadvantaged regions, and through its measures and instruments, the European Union 's regional development policy makes it possible for all regions to develop, thus contributing to a more competitive and balanced Union.

3. Cohesion and Cohesion Policy

The cohesion strategy is the main investment strategy at the Union level, being able to submit funding equivalent to 8.5% of public capital investment in the Union, which translates to an amount of 41% for the EU-13 and more than 50% for several countries.

This type of investment brings added value at European level, contributing to:

- The goal of the Treaty to reduce disparities, in terms of per capita income and living standards, in addition to social inclusion and engagement openings.
- European communal goods, incorporating innovation, digital infrastructure, aptitudes, fighting climate alteration, diminishing the menace of natural calamities, green energy and the conversion, public health and investment, public and intelligent conveyance.
- Broadcast effects for the assistance of countries not benefiting from cohesion strategy because of augmented trade and cross-border, worldwide, and interregional programs.

In other words, every one of the EU regions and cities benefits from the cohesion strategy, which also reinforces the economic growth, employment opportunities, environmental protection, sustainable development, and economic competitiveness. It should also be noted that the initial differences between countries relate not only to the level of GDP per capita and the stock of physical capital, and human capital and especially its quality, scientific and technological stock, as well as the institutional framework and to the cultural one. In studying the convergence process, these differences in factors must also be considered, which, additionally, require costly investment efforts that only some wealthy countries can support from the economic point of view, and moreover, these factors can generate a bigger impact than the additional stock of physical capital is able to produce. All at once, it must be aware of that the process of market liberalization and globalization augments the agility of production elements (investment streams, technological and scientific skills, etc.) and, at the same time, increases their contribution to economic growth, especially in countries with greater economic, scientific, and technological development potential, and which are dynamically engaged in these international flows and benefit from them.

In such a context, specialists have started to talk more and more about a model of synchronization of convergence and divergence processes in the integration process. As disparities between Member States narrow, inter-regional disparities tend to widen, especially as regional disparities within Member States widen. Let's analyze some factors that play an important role in stimulating the economic growth.

Investment is the key determinant of economic growth, identified by both neoclassical and endogenous growth patterns. In the neoclassical model, investments have a transient impact, while in endogenous growth models permanent effects are observed.

Physical capital consists of the equipment in which a firm invests in the manufacture of commodities and services. The novelty, brought by Paul Romer in the analysis, is that the proposed model considers the phenomena of externality between companies; by investing in new equipment, the company provides the means to increase its own production and, at the same time, for other companies. Because new technologies mean the enrichment of knowledge through practice, this knowledge is not only acquired by one company, but also disseminated to other companies. As such, investment has a double effect: it acts directly on growth and, indirectly, on technological progress.

Technological progress, induced by innovation, leads to improving the yields of the productive system, achieving economies of scale, reducing the ecological and social costs of growth, diversifying the

possibilities of allocating resources. The model is based on the analysis of economic conditions favorable to technical changes, coming from the implementation of an idea and testing it. Research and development expenditures are considered investments in knowledge that are found in new technologies, but also in more efficient ways of using physical and human capital resources. Thus, we can say that economic growth at the regional level is based on amplifying the already intricate process of innovation, learning and absorption of know-how, related to the workforce.

Human capital is the main source of growth in some endogenous models, but also one of the key dimensions of the neoclassical growth model. Recent growth studies consider training (formal qualification) and work experience as a form of human capital. Investments in human capital (expenditure on education and training) can have a continuous impact on the growth process if a high level of qualification facilitates the adoption of new technologies. Analytical studies in terms of the ability of workers to acquire qualifications, specializations, and know-how, through education and training, express the quality of human capital, reflected in various aspects (school enrollment rates, scientific qualification, etc.). The level of education acquired by the population is a key determinant of economic growth.

Public capital - theoretical - is a form of physical capital, corresponding to communication and transport infrastructure, the result of investments made by the central and local government of the state. Public capital also includes investments in the education and research sectors.

In addition to the factors presented above, there are several recent studies that note the influence of other factors on growth, such as: political framework, quality of institutions, external openness, and so on.

At the macroeconomic level, alignment with the least inflationary countries obliges partners to adopt deflationary programs, embodied in restrictive monetary policies and reducing public spending. This adjustment slows the pace of economic growth, decreases state budget revenues, increases deficits and social costs consisting of unemployment, displacement of labor to developed areas, reduces the possibilities for social protection.

At the microeconomic level, competitive pressure forces firms to align with prices in countries or regions with low inflation or high productivity, even before the expected restructuring and progress can reduce costs. Less competitive companies are forced to reduce their investments due to low self-financing opportunities. If the adjustments put too much pressure on the wage bill, the socio-economic cost in terms of unemployment and depreciation of purchasing power may become excessive. The resulting decline exacerbates disparities and affects the integration consensus.

The process is called "social dumping" and has a destabilizing effect on integration:

- affects free competition by creating false competitiveness;
- leads, beyond a certain threshold, to relocations of production;
- promotes undeclared work and puts pressure on the social benefits already gained in more developed countries.

4. The main mechanisms leading to elimination of regional disparities and my suggestions for economic recovery

Starting from the issue of regional disparities and based on analyzes of the latest data provided by Eurostat, we have compiled a list of proposals for improving the living standard.

The current inequalities tend to diminish at regional level all through the EU. If, from the beginning of 2008, local discrepancies in occupation and unemployment ratios have broadened, in conjunction with those on GDP per capita, from 2014 employment inequalities began to get thinner, followed by inequalities in GDP per capita in 2015.

Nevertheless, many regions failed in improving their GDP per capita and employment rate beneath pre-crisis levels. Within the 2000 – 2015 timeframe, the GDP per capita recorded in several less high-tech or industrialized regions was fairly close to the EU average, by an augmented tempo of productivity progress, but employment in these countries deteriorated. The manufacturing segment in these regions was able to reach an acceptable performance, thus local corporations were able to compete both in the single market and worldwide.

In order to ensure persistent convergence, these regions will need to make progress in the value chain towards activities with a greater need for skills, technology and innovation, especially as globalization and technological change could rapidly weaken their economic performance.

Regions with a GDP per capita greater than the EU average have undergone quicker economic growth than less developed countries, through a mixture of productivity increase and employment. As nearly all regions with a superior GDP per capita include within their boundaries a national capital or, at least, a large city, they take advantage from economies of scale, while a wider labor market impacts to a better correlation of skills.

In line with the International Monetary Fund, the gross domestic product per capita, at EU level, ranges from \$ 131,782, in Luxembourg to \$ 10,321 in Bulgaria. Thus, the share of GDP per capita in Luxembourg to Bulgaria is 13/1. At the regional level, the regions with the highest ratio of gross domestic product per capita are Luxembourg, which records a share of 260% of the EU mean, followed firstly by 2

regions in Ireland, and then Prague, Brussels, and Hamburg. The regions that register the lowest ratio of gross domestic product per capita (32-41% of the EU average) originate from Bulgaria, and a province from France. Investments in conveyance and ICT public services generate greater profits, while spatial immediacy to enterprises creates more innovation and broadcasting of information. These advantages can be widened by expanding connections between big cities and their rural hinterland or between cities of smaller sizes, where focusing more on specialized services can direct to economies of scale. Despite this, it can be observed that several regions with a GDP per capita close to the EU mean are currently stuck in an "average income trap". Generally, in several of these regions, GDP per capita decreased in the period 2000-2015 weigh against the EU average. Their production sector is smaller and feebler than that of other regions, both those with a lower gross domestic product per capita and those with a superior gross domestic product per capita. Their costs have a tendency to be too high to be able to strive against the aforementioned type of regions, and their modernization capacity is not strong enough to measure up with the latter.

To enhance their performance, these regions need to be subject to several simultaneous changes: a stronger focus on exports, a transition to new areas and activities, an incentive of research, better education, and a business ecosystem improvement.

Globalization caused numerous job losses in lots of regions, but the supplying of training for redundant workers alone does not pledge the design of new jobs and the desired structural transformation.

4.1 Employment vs. unemployment ratio

The first moment when the employment ratio for persons aged 20-64 in the EU exceeded pre-crisis levels for the first time was recorded in 2016. We are now observing an employment degree of 71% - that is 1 percentage point greater than in 2008 but, unfortunately, is well below the 75% goal established for 2021 in the Europe 2020 Strategy.

Nevertheless, the situation fluctuates noticeably within the EU. The unemployment rate in the EU varied drastically from 10.9% in 2013 to 8.6% in 2016 and 7.7% in 2017, a value that is still above the top of 7% in 2008. In several countries, the unemployment rate is now lower than the one logged in 2008, while other countries are dealing with percentages with at least 5 points higher. Regional discrepancies in unemployment rates did not narrow until 2016, but largely stopped widening. However, numerous people under the age of 25 continue to face difficulties in finding employment.

According to Eurostat (the central statistical body), in June 2021, the EU unemployment rate was 6.8%. The regions with the highest unemployment rates (between 18.4-27.8%) come from France (1), Spain (5), Canary Islands (with 22.6%), Greece (4), Italy-Calabria (1).

Unemployment rates among young people are higher than the unemployment rate in general.

The regions with the lowest youth unemployment rates (5-7.7%) come from the Czech Republic (5), Polonia (2), the Kingdom of the Netherlands-3.

The regions with the highest youth unemployment rates are in Spain (4), Greece (2), Italy (3), France (1). Romania has 5.2%, the unemployment rate, but the rate is highly influenced by the 5 million Romanians abroad – out of which 2.5 million are working.

The transition regions (i.e., those between the two categories) have not progressed at all until the forementioned date and will be surpassed by 2025 by the less industrialized regions, if tendencies persist. Rural zones are least probable to meet EU goals, but they have progressed beyond than cities and suburbs by 2021.

4.2 Population dynamics

Unprecedentedly, the number of fatalities has surpassed the number of new babies born in the EU in 2021, which highlights how regional inhabitants are influenced by the migration and mobility events.

As a result, substantial discrepancies in income and unemployment across the EU boost population mobility to uncover better employment opportunities and / or to circumvent unemployment and deprivation. There have been population interchanges mainly from the EU-13 to the EU-15 and, within the EU-13, from villages to more attractive zones, like capitals or big cities. Thus, this migration has conducted to speedy fluctuations in the configuration of the population in quite a lot of regions, which has put a lot of burden on public infrastructure and services, either to consolidate them or to decrease them.

In latest years, the EU has witnessed a fast rise in the number of asylum seekers, attaining 1.2 million new applications in 2020 and 2021. Warranting the effective assimilation of all refugees or migrants with legitimate residence in the EU is essential for consistency and future prosperity. Tweaking their abilities to help them attain a job, advocating them to launch a business, supplying better access to finance and fighting discrimination are key aspects in achieving this goal.

4.3 New challenges for cities

Even though a lot of new jobs and opportunities were created in urban areas, the highest share of low-intensity workload families may be found in the EU-15 cities.

Nowadays, the risk of penury or social segregation in the EU is back to levels similar to pre-crisis amounts. In the EU-13, it is at a lower level than before the crisis, but in the EU-15 it is still higher than previously in cities and suburbs.

This emphasizes the fact that there are islands of impoverishment even in relatively prosperous metropolitan areas. Cities are more energy and land effective, and their inhabitants may benefit from a low carbon lifestyle. Simultaneously, many European cities are fighting against air contamination, with all its detrimental effects on human health. Integrated policies can have a major effect on large cities. For example, developing urban transportation can diminish jamming, amplify business productivity, and link up disadvantaged vicinities. Higher education organizations can play a part to the integration of migrants, encourage innovation, and provide abilities that are lacking from the local labor market.

Solutions built on natural reserves, such as green spaces in urban neighborhoods, can enhance quality of life, and also improve biodiversity.

4.4 Low investment status in innovation, and infrastructure

Overall, only a limited number of EU zones acquired remarkable results in innovation. In the case of the North-Western part of Europe, the Member States have the advantage of suitable interregional connections, a highly trained workforce, and an appealing business environment. All these facts helped the adjacent regions to profit from the vicinity to the aforementioned areas.

In the Southern and Eastern European Member States, innovation performance is worse, and regions nearby innovation centers - mainly capitals - do not profit from this vicinity. This entails the development of policies connecting businesses, research hubs and dedicated exchange services in various regions. Boosting investment in talents could help to enhance economic growth, reduce skills discrepancies, and help reduce deprivation, youth unemployment and social segregation. In this moment, public investment is still way below pre-crisis levels, with major discrepancies affecting some of the countries hardest struck by the crisis.

4.5 Investment policy for energy efficiency

Two of the most painful environmental issues – energy consumption and greenhouse gas emissions – started to reduce their impact. Most Member States have met or are about to meet their public goals for 2025 on lowering the greenhouse gas emissions and start using more renewable energy.

It is obvious that the onset of the crisis largely contributed to a decay in the economic activity. Hence, the present recovery may lead to the opposite effect. The current efforts must be extended even more to accomplish the targets of a 40% decrease in greenhouse gas emissions and a 27% stake of renewable energy by 2030.

Passengers and merchandise transportation is done using mainly the road infrastructure, but the aim should be an increased usage of rail and inland watercourse transport for goods, and public transport within cities. Climate transformation will have substantial consequences on many regions of the EU. They will convey to environmental changes, which will frequently entail expensive adaptation and significant investment to ensure a higher degree of resilience to the outcomes of these changes.

Lately, the European natural environment is in a much better state. However, there is a bunch of strategic environmental goals which have not been attained. The list includes renewable energy, energy efficiency, air quality and, in some Member States, wastewater treatment.

4.6 Overcoming obstacles within EU

The EU has always encouraged regional cooperation and provided innovative solutions to European citizens in the fields of research, environment, transport, education, energy, health, security, and training. Regional collaboration can also assist countries and provinces to spot solutions to mutual dilemmas, containing those associated to new international challenges.

Support packages and programs have facilitated the expansion of the knowledge-based economy within the Europe territories. This was achieved by an augmented support in research and development and ensuring a continuous know-how hand-over process amongst regions, an intense investment strategy in SMEs, and through diversification of regional economies.

Current frontiers – or land boundaries persist to obstruct the unrestricted transfer of goods, services, people, capital, and ideas, even though many institutional and supervisory barriers were removed. Getting rid of these obstacles should boost the economic growth, enhance access to services and assist European economies to gather the full benefits of integration.

4.7 Stimulating economic progress

The inadequate quality of public administrations obstructs economic progress and diminishes the influence of public investment, including those co-financed by cohesion strategy.

Proficiency in public administrations fluctuates from one Member State to another. There are also noteworthy discrepancies within some of them. Developing institutions would augment the influence of cohesion strategy. We should aim for fundamental reforms able to enhance competition, the business

environment, education and abilities, labor markets and social protection methods. These outcomes will offer massive advantages when dealing with efficiency and employment progress. This may be well suited for regions and countries where productivity has gotten better insufficiently in the last ten years.

Nevertheless, reforms that necessitate primarily regulatory and administrative amendments, but not investment, are not presently connected to cohesion strategy. As stated by the "Doing Business" report (World Bank, 2021, "Doing Business 2021: Equal Opportunity for All"), there are major dissimilarities between how Member States are submitting a favorable business approach.

Another factor that influences the status of the business environment is the competence of local authorities, which varies within very large limits in EU countries.

To stimulate the development and incentive of the most proficient businesses, an open and transparent public procurement process must be warranted. Regrettably, we witness many times the abusive use of open procedures, while the level of competition, the actual pace of the decision-making process, as well as the peril of corruption fluctuate considerably amongst regions.

We should aim to improve the effectiveness and transparency of public institutions, and the value of justice systems to be capable to accelerate economic development. To be able to lower the regulatory obstacles and enhance the labor market purposes, there are necessary a lot of reforms.

4.8 Public investment

After a long phase of crisis, evidenced by a considerable reduction in investment in many Member States' provinces, the economy is recuperating. During the crisis period, total investment share, as a part of GDP has failed. Nowadays it has risen insignificantly. In the context of a hesitant economically recovery, Member States' public liability has begun to decrease from a logged peak of 87% but is still exceeding the level of 58%, recorded in 2007. Due to the high pressure that the public finances are facing, public investment in the EU collapsed from 3.4% of GDP in 2008 to 2.7% in 2020.

Some Member States faced a significant reduction of expenditure related to economic growth. As the majority of these Member States experience a GDP per capita inferior to the EU average, this decrease could endanger the alleviation of future discrepancies within the EU.

5. Conclusions

Although Europe's economy has gone through a rather long crisis, with significantly reduced investment in the Member States, regional development policy as well as cohesion policy have managed to improve living standards and opportunities throughout the Union.

I believe that as long as reducing disparities has become a goal and a principle for EU integration, cohesion strategy is the answer to decreasing the discrepancies amongst the degrees of progress of the numerous regions and the lagging behind of the disadvantaged regions and will help them to create new opportunities for their people, boost competitiveness and innovation in different sectors and improve cooperation with neighboring countries or regions.

Even though the implementation of cohesion policy requires a lot of bureaucracy, it can have multiple positive effects on regional and national economies, if the essence of this policy is perceived according to the objectives for which it was created.

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