

Some aspects of regionalization and European integration in Bulgaria and Romania: a comparative study

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Abstract. *The aim of the bilateral project “Regionalization and European integration in Bulgaria and Romania: a comparative study” of the Economic Research Institute, BAS (ERI BAS) and the Institute for National economy, RAS for the period 2013-2015 has dedicated to accomplish a comparative analysis of the implications of the European integration and enlargement for the development of regions in Bulgaria and Romania.*

Taking into consideration the specific features of the national economic policy of either of the two countries since 2007, the academic interest in the chosen topic is to be acknowledged as being fully justified by the fact that the EU integration has altered the political and economic opportunities of regional development of all the EU policies. The academic research on the experience of Romania and Bulgaria as new EU member states in the EU cohesion policy may present a valuable input to the debates on regional disparities, territorial cohesion, tools of regional and urban policy, multi-level governance, policy impacts and evaluation, territorial reforms and regionalisation at the present stage of the European integration when new challenges as well as possibilities are emerging.

Keywords: *European integration, regionalization, governance, competitiveness, convergence*

JEL Classification: *F15, F35, F36, F42*

On behalf of the Economic Research Institute of the Bulgarian Academy of Sciences, I have the pleasure to present the results of the joint bilateral research project undertaken

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by the joint team of scholars as part of our partnership with the Institute of National Economy of the Romanian Academy, Bucharest. Having been encouraged by the fruitful experience of our common projects with the esteemed Professor Gheorghe Zaman, the Director of the Institute of National Economy from the very start of the transition of our economies, we believe that the joint efforts of our scholars in the field of research of the contemporary issues of the economic development and the Europeanisation of our countries are of common interest in achieving better results from the economic integration.

Based on our mutual understanding of the role of the European integration in the regional development of Bulgaria and Romania and in line with the forward guidance of our Institutes, the scholars of the joint team have devoted their research to the analysis in several main areas of interest for our countries at the present stage of implementation of the EU policies for cohesion and regional development.

The Bulgarian and Romanian researchers have focused the analysis on the main areas of study of regional development of common interest: the economic and social development of Bulgaria and Romania in the current EU economic situation and the external (global) environment; the impact of the EU policies on Eastern European countries as regards the compliance with the EU requirements as well as the role of the absorption of the EU funds; the clarification of the extent to which countries like Bulgaria and Romania could take advantage and avoid risks in the process of the implementation of economic policies inside the countries in favour of regional development.

The results of the research represent a useful contribution to knowledge development in the field of the European integration on national and regional levels.

The Bulgarian side research has been devoted to the following topics: (1) the analysis of the role of FDI and EU Structural Funds on the economic development of Bulgaria and the improvement of the competitiveness of the Bulgarian economy in order to positively influence the economic growth; (2) the impact of financing the regional development and competitiveness at macro and micro levels of the Bulgarian economy; (3) the social and economic dimensions of regional development of Bulgaria; (4) presentation and evaluation of Regional Competitiveness Index (RCI) for the Bulgarian Regions; (5) Prospects for intraregional cooperation among the stock exchanges in selected Danube Region countries.

The paper "*Bulgarian economic integration into EU and convergence. How FDI and Structural Funds could help this process?*" deals with the impact of FDIs and European Structural Funds for the economic growth and development in the specific case of two new EU member countries by proposing several recommendations and instrument coping with the need of sustainable development of both countries. On one hand, it is

underlined that the Bulgarian authorities have made efforts to respond to economic requirements of Europe 2020 targets for both types of demands: increasing competitiveness and strengthening cohesion. On the other hand, however, in Bulgaria, as well as in the other Central and Eastern European member states, these demands rose up a dilemma between competitiveness at the risk of increasing regional disparities and, cohesion through regional equity in redistributing growth benefits. The economic development at national and regional levels has been more and more concerned by the necessity to enhance the competitiveness and boost ahead the convergence process with other EU countries. To some extent, Bulgaria in the pre crisis period was on the way of a positive catch up with other EU economies. However, the promising process of catch up, in terms of economic growth, income and social conditions has been interrupted because of the negative impact process of global finance and economic crisis. EU economic integration is not a guarantee of convergence taking into account it facilitates capital and labour mobility, as well as concentration processes. The catching-up processes in less developed countries can succeed or fail, depending on the relevant economic development performances of the involved countries.

Two powerful EU financial instruments, foreign direct investments (FDI) and EU Structural Funds, have been under consideration in order to reveal their role in improving the competitiveness at macroeconomic and regional levels and to increase economic growth. Data of FDI at regional level demonstrated clearly that FDIs entries have been distributed unequally between economic sectors, and between regions. The effects of FDIs inflows have been frozen and limited in the post-crisis period and consequently their role for the stabilization and the enhancing of economic growth have been with little impact. The EU Structural Funds have been suspended for a major part of the post accession period. At present some positive results have been registered as far as the effects on economic development are concerned. The macroeconomic and regional economic gaps are a special concern of the country must be for Bulgaria, which continues to be on the lowest position of GDP per capita. (45% of 100) among the EU 28 countries. The volatility and the uncertainty in the absorption of FDIs and the financing via the European structural funds have to be a priority for the implementation of EU policies oriented towards new industrial and trade policies.

The study on “Financing regional development and competitiveness: problems and challenges at macro and micro level in Bulgaria” discusses the contemporary regional development of Bulgaria and its financing from different national sources and European funds. The compliance with the EU requirements for attaining targeted results in specifically programmed priority areas is a driving force for improving the financial governance of regional development. The main discussion in the paper is devoted to the analysis of the problems and prospects of the coordination by different types of national

policies between public and private financing of regional development, their interdependence and overall impact on the regional production structures and social development. In this context, a special attention is paid to financing of regional development emphasizing on the need of increasing the role of decentralization of local governments' finances. The issues of the efficiency and effectiveness of the financing of regional development are analyzed within the framework of the goals of sustainable regional development in the compliance with the 2020 EU requirements of smart, green and inclusive society.

As regards the mechanisms and instruments of the regional development financing some conclusions are made for the alternative approaches and policies to enhance the competitiveness of the regions in Bulgaria. The role of cluster creation is discussed in order to highlight the problems and future prospects for the regional development.

In conclusion, the lessons are drawn for increasing result orientation of 2014-2020 Operational Programmes of Bulgaria in support of regional development are focusing on the competitiveness increase of the Bulgarian regions taking advantage of public and private funds and partnerships for regional development;

The paper "Regionalization and European integration in Bulgaria and Romania: comparative study" has analyzed the social and economic regional development showing each region's specificity in both countries, and on this basis, offers conclusions and recommendations on relevant scenarios for their future development.

Basically, three aspects of the regional development have been considered:

Demographic. Main demographic indicators, including projections up to 2050 have been presented. In particular the following demographic data were considered: population – number and density, age structure; population trends, including internal and external migration; ratio between urban and rural population, specificity of the degree of urbanization and urban-rural typology. In addition, bio-demographic analysis will be provide, including mortality rate, deaths caused by different deceases, indicators on the medical help and health care system. On this basis, some perspectives will be outlined.

Social. Given the demographic specificity the differences between the Bulgaria's regions have been considered about the social living conditions and the social status of population, using data for, real wages, household incomes and expenditures, level of infrastructure, etc.

Economic aspect included mainly two areas: (1) GDP per capita; (2) Labor market: employment rate – age structure, educational structure, (Europe 2020 target), unemployment rate, gender specificity of the labour market.

Given the analogous study for Romania, common and different features between Bulgarian and Romanian regions have been outlined.

The opportunity created by the EU funds and the national policy aiming at developing rural areas are presented in a comparative approach. The good practices in some EU countries and Switzerland have been presented as far as they (or their variants) could be implemented in view of positive future development as well as efficient intraregional cooperation.

The final purpose of regional development is to achieve faster economic progress in the countries in order to catch up sooner the average EU level of economic development.

The study “Bulgarian and Romanian Regional Competitiveness” presents a Regional competitiveness index like the first measure of the degree of competitiveness at regional level covering all EU countries and their regions. The study sets up the methodological frame of the RCI and then it has been applied to Bulgarian NUTS 2 regions. The results achieved show the strengths and the weaknesses of Bulgarian regions. RCI methodology has been based on The World Economic Forum Global Competitiveness Index. It has been the main reference framework for the construction of the RCI. The RCI consists of eleven pillars based on a total of 69 indicators organized into three groups (pillars)

The joint project on the Bulgarian side is presented also by the study on the “*Stock exchanges’ development in selected Danube region countries*”. The analysis presents the intraregional cooperation of the Bulgarian Stock Exchange as an important element of the stock exchange strategy for raising the efficiency of the Bulgarian capital market and safeguarding its future development amongst the EU capital markets.

In an environment of rising global competition, the Bulgarian capital market is confronted with the threat to remain “in the periphery” of integration process if no actions at macro and micro levels are undertaken for deeper cooperation of the BSE – Sofia AD with regional stock exchange players in the Danube region in particular (as Croatia, Hungary, Romania, Macedonia, Poland, Serbia, Slovenia, etc.). The regionalization process needs to be driven by the market forces through adequate evaluation of expected costs and benefits. The effective functioning of the stock exchange is viewed as a public good. The stock exchange generates profits through raising the volume of transactions, which is directly linked to the quality of offered services and the established reputation of the exchange. Increase in competition drives prices of securities to socially optimum equilibrium level as per the public well-being economy.

The research paper has analyzed the current state, main problems and strategic priorities of the Bulgarian capital market for deepening of its integration to EU capital

markets through increasing its regional cooperation with other stock exchanges in the Danube region.

Further on in the paper have been evaluated quantitative and qualitative changes on the Danube regional stock exchanges in selected countries and some relevant conclusions regarding possible ways of improvement for the Bulgarian capital market have been drawn. The expected transformations on the Bulgarian capital market have been considered from deepened intraregional links with selected Danube regional stock exchanges and their conformity to set strategic priorities.

The potential model for the future development of the Bulgarian capital market is regional cooperation and consolidation process. According to this model neighboring countries have similar cultures and well-developed business relations. Main precondition for success of the regional model of consolidation is harmonization in EU member states' legislation. The expected positive external effects from deepened intraregional cooperation processes among Danube regional stock exchanges are stemming from economies of scale driven by demand due to the link between interoperability, compatibility, and coordination. Intraregional integration of capital markets in the Danube region, as is an important element from the entire process of establishing competitive and well-integrated capital markets in EU. A stimulating factor in this regard is technological advancement urging transition from traditional forms of trade to electronic platforms and execution of orders through alternative trade systems.

It is to be summarized that the research presented by the joint project on "Regionalisation and European integration in Bulgaria and Romania: Comparative study" includes comparative and economic analysis on the basis of European integration theory; analysis and evaluation of quantitative and qualitative links between variables relating to macroeconomic and regional economic development in Bulgaria and Romania and policy assessments as regards the results of economic policies. The research has made use of price-based approach and other quantitative methods to measure Bulgaria and Romania economic integration in order to address three important questions: 1) Is there an economic convergence of Bulgaria and Romania in relation of EU integration? 2) What are the main obstacles at micro and macro levels to the EU integration the Bulgaria and Romania are confronted with? 3) How similar or different are the economic structures in the both countries in terms of various quantitative and qualitative economic activity indicators?

In conclusion, the joint research on the interdependence between the regionalization and Europeanization has given the chance for scientific researchers of both countries to discuss the common and specific economic problems of Bulgaria and Romania and to share the understanding of the rising need of introducing new approaches and

instruments in favour of regional development in both countries. Since 2014, a new programming period of the EU's Cohesion Policy (CP) has started adding a major emphasis on the importance of upgrading the national and the EU policies. The stress is laid upon the improvement of the policies responsible to foster investments in order to make possible to recover from the crisis that has significantly increased regional disparities. Having been engaged with the implementation of the Europe 2020 Strategy, Bulgaria and Romania are both taking part in the fulfillment of the newly adopted 'Juncker's investment plan' and their efforts for better implementation of the EU cohesion policy in line with other policies are much in need of drawing the proper lessons from their own experiences. The academic interest to exchange views and ideas for our countries' regional development has made possible the publication of the present papers of Bulgarian authors the results of which are stimulating continue action of further joint co-operation between the Economic Research Institute of the Bulgarian Academy and the Institute of National Economy of the Romanian Academy.