COMPETITIVENESS IN REGIONAL DEVELOPMENT

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ABSTRACT: *The development and diversification of the economic activities, the stimulation of investments both in the public sector, but mainly in the private one, the reduction of unemployment, the improvement of living standards are just some of the concepts aimed at by the regional development. The main method which can lead to a balanced development of the regions is financing them differentially so that the underdeveloped regions would obtain proportionally more funds that the developed ones. At a region level, the main objective is represented by the more accelerated growth of the less developed regions, in an effort to diminish the inter-regional and intra-regional development disparities. A key role is played by the sustainable economic growth concept, while also analyzing the competitiveness at a regional level, as well as the main development factors.*

KEY WORDS: *competitiveness, regional development, sustainable economic growth, efficiency, equity*

JEL CLASSIFICATION: *G01, R11*

1. INTRODUCTION

The current economic and financial crisis has not just changed the global economic environment, but has also highlighted the fact that the financing sources were, in many countries, not safe enough, emphasizing the need to improve the economic performance measurements. In the last two or three decades, one of the key elements used in the regional development's economic analysis has been the regional competitiveness. Also, the regional development is a concept that aims at stimulating investments, both in the public sector, but mainly in the private one, at developing and diversifying the economic activities, at contributing to a reduction in unemployment and, last, but not least, at leading to an improvement in the living standards. Thus, the main method which can lead to a balanced development of the regions is financing them differentially, so that the underdeveloped regions would obtain proportionally more funds than the more developed ones. At a regional level, the main objective is

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represented by the more accelerated growth of the less developed regions, in an effort to diminish the inter-regional and intra-regional development disparities.

2. COMPETITIVENESS AT THE EU LEVEL

Competitiveness is a wide notion, with multiple valences which converge towards a concept whose content has not been precisely established. According to the Statistical Office of the European Union, competitiveness is "the capacity of an enterprise, economic branch or trans-national ensemble to generate, in a sustainable manner and under competition conditions, relatively high income levels and factor occupancy levels".

According to the general development objective, the national strategy will give priority to the underdeveloped regions which make use of national and regional resources, while the other sectoral strategies do not benefit from a spatial approach, but have an obvious regional impact. Implementing the regional strategy will, ultimately, lead to a reduction in inter-regional disparities, as well as in disparities within regions, between the rural and urban areas, between urban centres and adjacent areas and, within cities, between the areas which are attractive for investors and the unattractive ones.

Both the highly developed regions and the less developed ones have been equally affected by the economic crisis in the last few years. As a result, the regions have remained at approximately the same level and the general regional disparities have not changed significantly.

The World Economic Forum annually publishes a report regarding global competitiveness in the countries. By adopting a similar approach, a new competitiveness index has been created for all NUTS 2 regions. It consists of twelve pillars which are based on a total of 96 indicators organized in three groups, basic group, efficiency group, innovation group). These indicators have a much wider scope than just limited economic aspects and also include many indicators regarding the quality of life, life expectancy, health etc.

The twelve pillars distributed into the 3 groups present themselves as follows:

→The Basic Group represents the main engines of any type of economy:

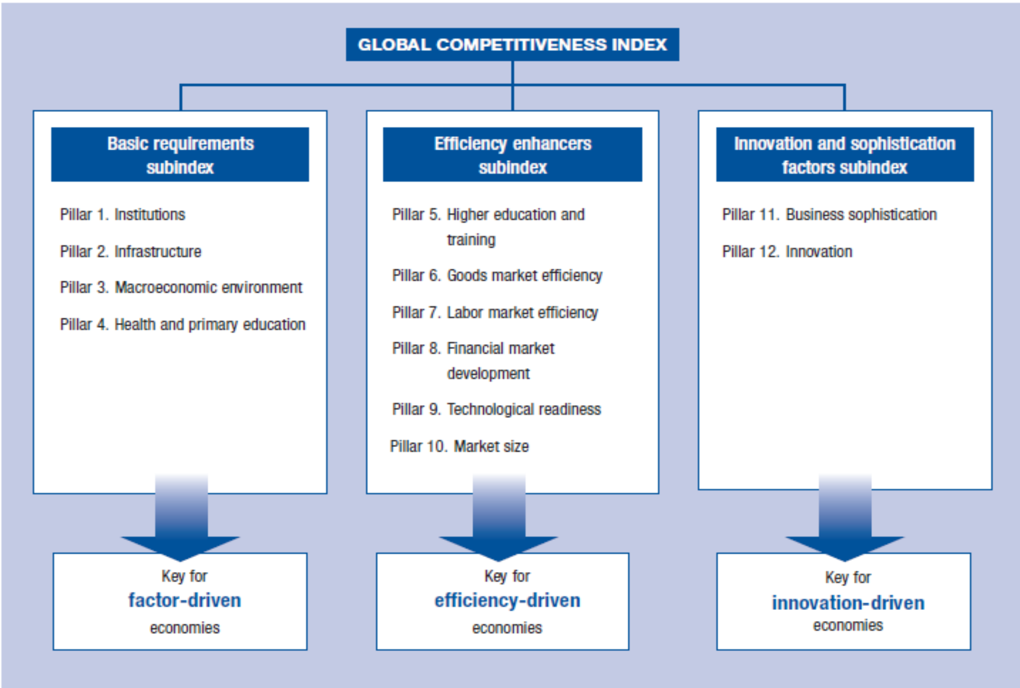
1. Institutions
2. Infrastructure
3. Macroeconomic environment
4. Health and primary education

→The Efficiency Group represents the aspects which become important as a region develops:

5. Higher education and training
6. Goods market efficiency
7. Labour market efficiency
8. Financial market development
9. Technological readiness
10. Market size

→The Innovation Group includes the engines of advanced regional economies:

11.Business Sophistication
12.Innovation



Source: The Global Competitiveness Report, 2012–2013

Figure 1. The Global Competitiveness Index (GCI)

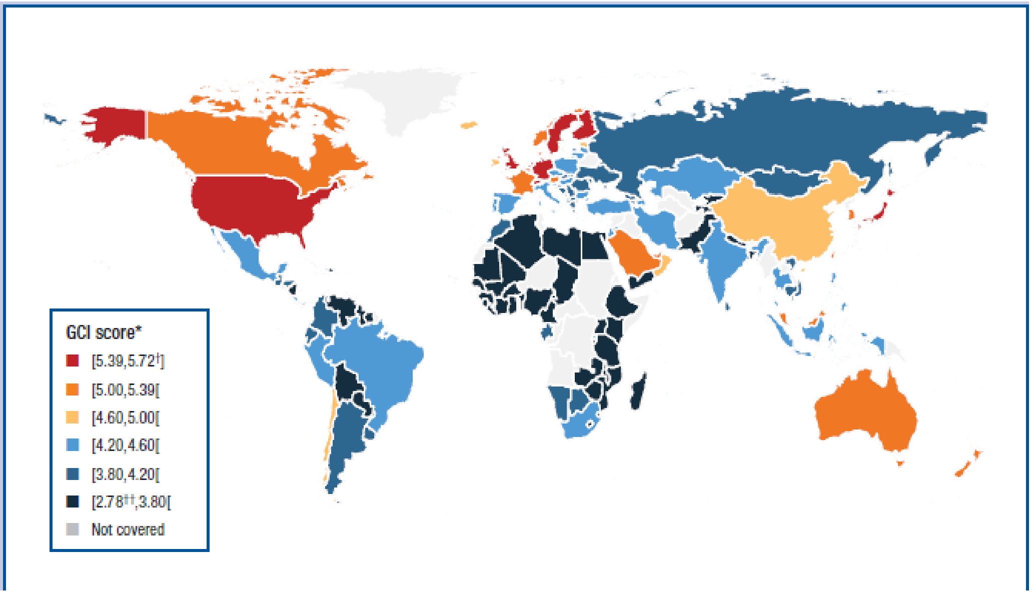
Each of these pillars allows evaluating a region's performance in relation with all other regions. As a result, they can be considered as indicators of the strengths and weaknesses for each region.

Once the regions advance by means of own development, the social and economic conditions also change and other determining factors become increasingly important for their competitiveness. Thus, the optimal method to improve the competitiveness of a more developed region can differ from those of a less developed one. Considering this aspect, the proportions associated to each of these groups are related to the region's GDP per capita, as follows:

- In the less developed regions, the distribution is: 40% for the basic group, 10% for the innovation group, while the efficiency group receives a fixed percentage of 50%;
- In the regions with an average development, the distribution is: 30% for the basic group, the innovation group practically doubles reaching 20%, while the efficiency group receives the same fixed percentage of 50%;
- In the more developed regions, the basic groups receives only 20%, the innovation group triples, reaching 30%, while the efficiency group, again, receives the same fixed percentage of 50%.

All these show that the competitiveness of a less developed region can be consolidated rather by improving institutions and primary education, than by increasing innovation expenditures. Moreover, one can notice that developed regions can lose competitiveness if they do not invest more in innovation.

In the image below, one can notice the high levels of competitiveness and the regions or countries with low performances in relation to the Global Competitiveness Index (GCI). The ten best performances are highlighted with dark red. The rest of the countries have intermediate colours, ranging from orange – the second best performance group, through yellow, light blue, normal blue and dark blue – this last colour identifies the least competitive countries, according to the GCI. The map reveals that the most competitive countries remain concentrated in Europe, North America, while also comprising some of the advanced economies from Asia and the Pacific. Despite decades of intense economic growth, in some developing regions (such as Latin America and Africa), the map shows that these regions' competitiveness gap persists compared to the much more advanced countries.

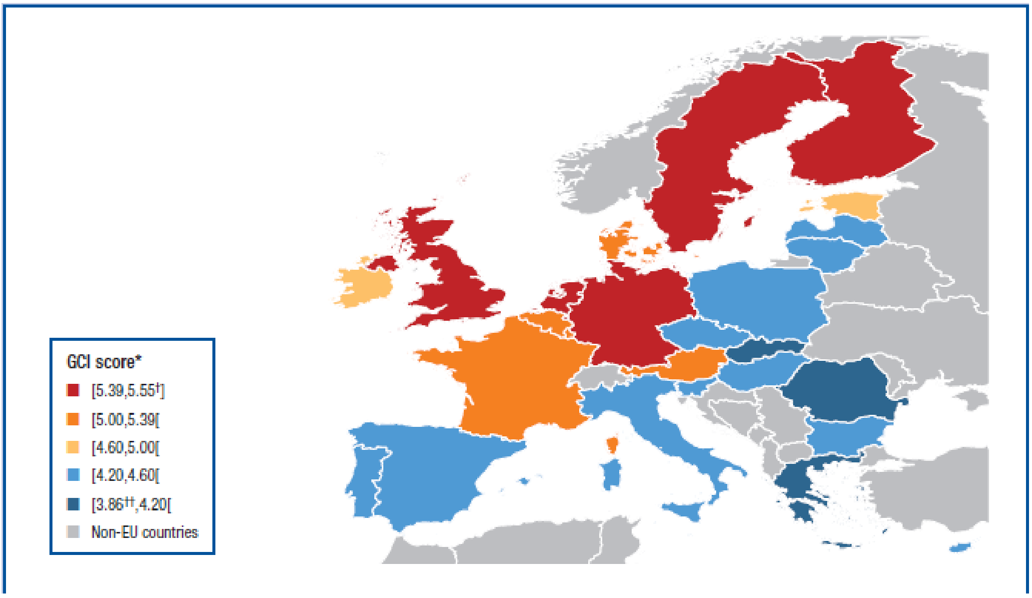


** The interval [x,y] is inclusive of x but exclusive of y. † Highest value; †† lowest value.*
Source: The Global Competitiveness Report, 2012–2013

Figure 2. Competitiveness at a global level

At the European Union level, the general competitiveness is higher in the northern regions, in the south of Germany, in the Benelux and in the south-east of England. As far as competitiveness is concerned, the differences between regions are higher within certain member states. For example, most of the regions in Germany and Poland, as well as some regions in Greece which are specialized in tourism, but also the regions around the capitals from the EU-12 zone have been relatively little affected by the crisis. By contrast, almost all the regions in the Baltic countries, the regions in the north of Hungary, some regions in Italy and southern Spain, Greece, Ireland have suffered a significant economic contraction. A relatively fast recovery has been observed in some prosperous regions from Germany and northern Belgium, as well as in the capital regions in the north and centre of the EU. Also, one can notice a relatively good performance in the case of some regions in Poland, as well as a rather rapid recovery in most of the other EU-12 regions. At the other extreme, forecasts are much less favourable for the regions from Greece and, in a lesser degree, for those from Spain, France, Italy and Portugal.

Figure no. 3 displays the competitiveness at the level of each region, as the bright red highlights the highly competitive regions, while the dark blue highlights the least competitive ones.



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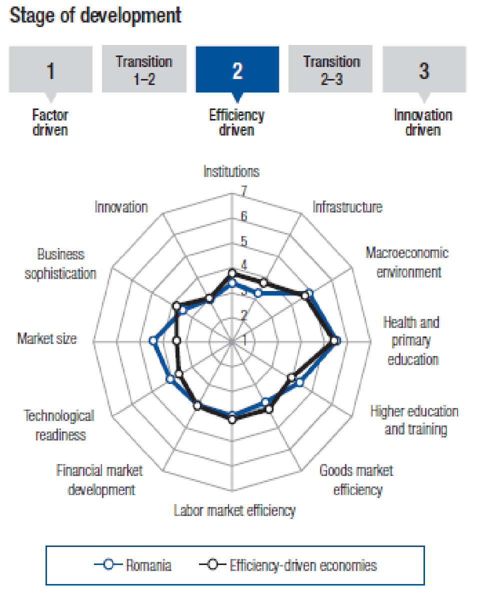
Source: The Global Competitiveness Report, 2012–2013

Figure 3. Competitiveness at the EU level

At the level of Romania, the Global Competitiveness Index is presented in Figure no. 4. The first column displays the country's rank among the 144 analyzed economies, while the second column displays the score. Each sub-index's proportional contribution to the GCI score is also reported separately in the above figure, split into three main groups, weighted correspondingly according to the low development level. These weightings vary depending on the country's level of development. On the right hand side, a diagram shows the country's performance for the 12 pillars of the GCI (the blue line), measured in regard to the average scores of all economies which undergo the same development stage (the black line).

	Rank (out of 144)	Score (1–7)
GCI 2012–2013	**78**	**4.1**
GCI 2011–2012 (out of 142)	77	4.1
GCI 2010–2011 (out of 139)	67	4.2
Basic requirements (40.0%)	**90**	**4.2**
Institutions	116	3.3
Infrastructure	97	3.2
Macroeconomic environment	58	4.8
Health and primary education	83	5.5
Efficiency enhancers (50.0%)	**64**	**4.1**
Higher education and training	59	4.4
Goods market efficiency	113	3.9
Labor market efficiency	104	4.0
Financial market development	77	4.0
Technological readiness	59	4.1
Market size	43	4.4
Innovation and sophistication factors (10.0%)	**106**	**3.2**
Business sophistication	110	3.5
Innovation	102	2.9



Source: The Global Competitiveness Report, 2012–2013

Figure 4. The Global Competitiveness Index at the level of Romania

Regardless of their level of development, generally, in most of the countries, the regions around the capitals record higher values as far as competitiveness is concerned. Whereas in the developed countries, the competitive regions are surrounded by other competitive regions, in the less developed countries, these regions are usually surrounded by less competitive ones. This reveals the fact that the competitiveness factors are distributed more uniformly in the developed countries and the competitiveness tends to extend upon the neighbouring regions. In the less developed countries, the competitiveness factors are concentrated in the capital region, due to limited transportation connections and to a different business environment.

Although the areas most affected by the economic crisis were those specialized in craftsmanship, the highest unemployment rates have been recorded in the regions which were highly dependant on the construction sector. Regions with an increased proportion of public sector employment have also been significantly affected. Those which have been moderately affected specialize in financial and business services, as mostly are capital regions or developing metropolitan regions. Generally, the industrial regions, specialized in production, or those with a higher proportion of financial or business services are forecast to recover more quickly, while those that are dependant on tourism, construction and public administration are estimated to recover more slowly.

The exchange of goods between the EU and the rest of the world has also been deeply affected by the economic crisis. The recession, which has affected EU more strongly than other parts of the world, has led to a higher decrease of imports than that of exports and to a fall in the trade deficit. More and more companies are relocating different parts of their production facilities in different parts of the world and this increasingly dispersed production system is boosting the demand for logistics and command and control systems. Such a process is creating both opportunities and threats for the EU regions. The sectors in which the EU has become less competitive include the textile, metal or electrical and optical equipment industries. Some regions have lost their markets as they have engaged in competition with developing economies outside the EU in the field of low cost and quality products. This fact highlights the essential role of investing in the human capital, in the entrepreneurial spirit and in a favourable business environment.

In order to understand the economic development in the EU regions, one must perform an analysis of the factors which the diversity of the economic performance or a region's competitiveness is based upon. Specialized papers tend to group the development factors in the following general categories: production factors; human and physical capital; technology.

It is assumed that an accumulation of the aforementioned factors is facilitated by functional financial and labour markets and it is affected by different other characteristics, such as population age structure, available natural resources, access to the large production markets, economic activity density within the region, administration quality, political context, macroeconomic environment etc.

Starting from the factors enumerated above, econometric techniques have been employed in order to calculate which of the more than 60 potential growth factors represent the most important engines in the regional development, as follows:

- the human capital, in other words the education level, is one of the most important development factors, especially the proportion of superior education population. This is in correlation with the innovation, as these people facilitate the rapid spread of new technologies and knowledge, in general;
- the fixed capital is another important factor, mainly due to the fact that it directly affects a company's productive capacity, but also because this factor also influences innovation, as the capital tends to incorporate the latest technologies;
- unemployment reflects the healthy functioning of the labour market, as well as the regional flexibility and social cohesion;
- existing neighbours, meaning that a region's development performance partially depends on the neighbouring regions' development.

All these results reveal the fact that national measures cannot express this strong regional dimension – competitiveness.

The development of the regional economies remains a major priority for each country, as it generates employment and finances social expenditures and environment protection, as well as social cohesion and cleaner and more efficient technologies which, in turn, contribute to development. For a sustainable development, the three axes of the Europe 2020 Strategy are:

- Intelligent growth: developing an economy based on knowledge and innovation;
- Sustainable growth: promoting a more efficient and ecological use of resources and promoting a more competitive economy;
- Growth favouring inclusion: promoting an economy with a high level of employment which would ensure social and territorial inclusion.

3. CONCLUSIONS

The main goal of the regional development policies consists in reducing regional disparities, achieving a balance between the different regions' social and economic development levels.

One objective of the regional policy, specific to this period, is to facilitate structural and sectoral adjustments, to support the economic restructuring and recovery processes, to rebuild and stimulate the regions' competitive capacity and to support the European integration processes.

Most of the countries, including the economically developed ones, are facing regional disparities and, consequently, are applying regional development strategies and policies. One must also consider that the difficulties generated by the regional imbalances and the ways to solve them, cannot be approached without taking into account each country's level of development. The process of reducing the discrepancies between the developed and underdeveloped regions takes time and can be performed through small steps. Even if the economic growth rhythms are superior in the less developed regions, the developed regions' economies do not stagnate, but situate themselves on ascending trend, reflected in the disparity reduction intensity.

For this reason, diminishing the territorial disparities should represent an essential component of each country's post-adhesion strategy.

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