PUBLIC

ADMINISTRATION

&

REGIONAL

STUDIES

DUNĂREA DE JOS UNIVERSITY

FACULTY OF JURIDICAL, SOCIAL AND POLITICAL SCIENCES
PUBLIC ADMINISTRATION DEPARTMENT

PUBLIC ADMINISTRATION & REGIONAL STUDIES

No. 2(6)-2010

FOREWORD

There was a time, not too long ago, when most specialists were pessimistic about the future of the European Union.

Nowadays, the European Union has become a powerful economic, politic and social entity able to assume the role of world leader. Practically, Europe begins to identify with the European Union.

For Romania, the adhering process was a great challenge and the future complete integration represents the greatest challenge too.

So, we consider that it is the time of a greater implication in order to support the conceptual framework and to improve the scientific approach in our country.

We consider that an efficient public administration and a dynamic regional policy are the key elements in order to achieve a sustainable development in Romania.

As a result, we try to build a bridge between Romanian and foreign specialists in public administration and regional sciences in order to propose solutions for improvement using this new publication.

We want to express our gratitude to our international advisory board for having honoured our initiative named PARS.

PARS invites you to send articles for consideration in order to support our approach.

DIRECTOR,
Ph.D. Professor ROMEO IONESCU
Dunarea de Jos University, Romania

CONTENTS

REGIONAL DIVERGENCE VERSUS EUROPEAN CONVERGENCE WITH SPECIAL EMPHASIS ON THE NORTHERN HEMISPHERE[1]

Andreas P. Cornett[*] and Nils Karl Sørensen[**]
University of Southern Denmark

Abstract:
We analyze different patterns of economic development in Europe, and particularly in the Nordic and Baltic hemisphere based on an assessment of interregional and intraregional growth and trade performance. The central hypothesis is that large intra-regional disparities do not necessarily lead to lower economic growth on a national level than smaller disparities do.

We examine the pattern of regional convergence within all EU-countries. The Baltic Region is divided into East Baltic region and West Baltic region. We observe overall convergence. At the national level, divergence is frequently observed in the Baltic hemisphere.

With regard to trade hypothesis of trade, a close relation to the level of income is found. Finally, we discuss and evaluate the impacts on economic growth and competitiveness in the Baltic and Nordic hemisphere.

Key words: *Baltic dimension – convergence – trade – specialization*

JEL Classification*: R11, R12, R58.*

1. Introduction

The economic position of the Nordic countries and the Baltic Region has altered in the last two decades, partly due to internal changes and revitalized growth performance, partly by the removal of the iron curtain

and the reintegration of the former state economies in the western market-based economic system. In some sense, the 'Nordic periphery' has turned into the center or at least has become a center of economic development, and much attention is still on the future perspectives of the region[1]. The purpose of this paper is to analyze two aspects of this process:

- economic growth and the development of inter and intraregional disparities;
- in addition, to address the impacts on trade and specialization with special attention to spatial integration in the Northern hemisphere.

The project reported in this paper aims to assess different patterns of economic development in Europe and in particular in the Nordic and Baltic region based on an assessment of interregional and intra-regional growth and trade performance[2]. The central hypothesis is that large intraregional disparities do not necessarily lead to lower economic growth on a national level than smaller disparities do. Furthermore, the paper provides an assessment of the consequences for economic integration in the region, here defined as the countries located in the Baltic Rim region, i.e. the old market economies Norway, Sweden, Denmark, Finland and Germany, and Russia, Poland and the Baltic states from the former socialistic economies.

In a period of globalization and outsourcing in business and industry, economic analysis often focuses on international transactions and organizational changes. Competition between the regions and metropolis in Europe or of the world has become a major topic in international economics and business as well as on the political scene. These tendencies raise the question of national and regional coherence. The issue of cohesion in regional economic associations like the EU becomes a decisive issue for further integration European Parliament (2007). Particularly in the more advanced forms of economic integration, the issue of re-distributive instruments becomes crucial, Molle (1999), p. 146ff.

In addition, we also examine the consequences of the increasing global orientation of large parts of the European economy concerning

---

[1] For a review of recent trends see the thematic issue 'The Baltic Sea Region Strategy' of the Journal of Nordregio, no 1, 2009 (Nordregio 2009).
[2] See Cornett & Sørensen (2008a). The trade analysis has been supported by a grant from the Danish Ministry of the Environment within the VASAB 2010 initiative.

regional cohesion in the Northern part of Europe. This paper addresses the issue of cohesion in two ways:

- a brief theoretical examination of the concept of convergence and cohesion used in the literature, and the indicators used for measuring regional disparities is followed by an analysis of inter and intraregional convergence in the Baltic Rim Region;
- an alternative concept of cohesion is presented based on an outline of patterns of interregional specialization in the production system, here measured by intra-industry trade between countries in the Baltic Sea Region, hereafter BSR.

After a brief presentation of the concepts of convergence in Section 2, Section 3 addresses growth and convergence in the BSR based on GDP per capita data for NUTS-2 or NUTS-3 regions. In Section 4, an alternative approach to international economic convergence and integration based on international trade statistics is presented, and results for the BSR region are reported. The final section summarizes the results of the study with special attention to regional competitiveness and growth. Furthermore, the section addresses some methodological concerns related to the study.

2. Regional Coherence and Disparities

Coherence and disparities are frequently examined by use of the theories of convergence. Convergence implies that in the long run a unique pattern of steady state growth will be reached. Consequently, poorer regions will experience a higher rate of growth in GDP per capita than more wealthy regions. These may on the other hand experience a decrease in growth. This type of convergence process is also called *β-convergence*, and was introduced by Barro and Sala-i-Martin (1991).

The statement is a direct application of the neoclassical growth model developed by Solow (1956). For a relation to the convergence approach see Abreu, De Groot and Florax (2005). The existence of a unique pattern of growth g, will be true, if two key restrictions are imposed on the production function, namely diminishing returns to scale with respect to reproducible factors (capital), and constant and exogenous rate of labor augmenting technological progress. These assumptions will also secure a constant savings fraction of income.

The unique balanced growth equilibrium g in the neoclassical

growth model, can be stated as[1]

$$\frac{\dot{y}}{y} = \frac{\dot{k}}{k} = \frac{\dot{A}}{A} = g$$

Where: a "dot" indicating growth, $y = Y/L$, output per labour unit, $k = K/L$, capital, and A is labour augmenting technology.

If convergence is present, the growth rate of regions should approach towards this growth pattern. Denoting $\tilde{y} = Y/AL$ and $\tilde{k} = K/AL$ as output and capital per efficiency unit of labour respectively, a Taylor expansion in $\log \tilde{k}$ around the steady state $\tilde{k}^*$ results in the differential equation

$$\frac{\dot{\tilde{k}}}{\tilde{k}} = \lambda (\log \tilde{k}^* - \log \tilde{k})$$

It is observed that the growth rate of capital per efficiency unit of labour $\tilde{k}$ is proportional to the distance between its current value and the steady state. The parameter λ is the rate of convergence to the steady state. It depends on labour force growth and the rate of depreciation.

Solving the differential equation and using the Cobb-Douglas function in intensive form as $\tilde{y} = \tilde{k}^{\alpha}$ we obtain

$$\log \tilde{y}(t) = (1 - e^{-\lambda t}) \log \tilde{y}^* + e^{-\lambda t} \log \tilde{y}(0)$$

Where: t is the time operator at n periods from 0. In order to make this equation empirical testable note that the available data are defined in terms of per capita income, or $y = \tilde{y}A$. Substitution into the equation above and subsequent rearranging gives

$$\log y(t) - \log y(0) = (1 - e^{-\lambda t}) \ln A(0) + gt - (1 - e^{-\lambda t}) \ln y(0) + (1 - e^{-\lambda t}) \ln \tilde{y}^* + (1 - e^{-\lambda t}) \ln \tilde{y}^*$$

The neoclassical model is concerned with convergence *within* an

---

[1] This condition is derived by use of a Cobb-Douglas production of the form $Y = K^{\alpha} (LA)^{\alpha}$ with 0 < α < 1, where Y is output, K is capital, L is labour and A is labour augmenting technological progress.

economy rather than *across* economies. However, in the majority of contributions on convergence a cross-sectional version of the model has been adapted. Assuming that the initial level and the growth rate of technology are constant across and x represents a vector containing the determinants of the steady state the equation just outlined can be written as

$$\log y(t) - \log y(0) = \beta_0 + \beta_1 \ln y(0) + x'\gamma$$

or

$$\Delta \log y_t = \beta_0 + \beta_1 \ln y_0$$

where the final version is an operational version to be estimated by use of OLS. Here $\Delta \log y_t$ is the growth rate from period *0* to *t, β_0* is a constant, and β_1 is an estimate of the speed of convergence. If β_1 is significantly negative then convergence is present. If β_1 is positively significant, divergence is present.

Observe that in order to estimate the model in its most simple version several strong assumptions have to be imposed. Assuming that $x'\gamma$ does not influence on the model implies that the model by itself finds the steady state, and that the treatment of technological progress is assumed to be exogenous to the model. Abbeu, De Groot and Florax (2005) review the different attempts that have been undertaken in various contributions to cope with these issues.

Another criticism to the approach of β-convergence is that only two points in time are needed in order to estimate the model. Therefore, it is truly a cross-section approach. A related, but slightly different approach of convergence is to consider the variation around the mean of measured by the standard deviation of. Therefore, we are examining the distributional dynamics of per capita income. If decreases in time, then convergence will be present as stated by Quah (1993). This type of convergence is called *σ-convergence.* It is evident, that the concepts of *β-* and *σ*-convergence are strongly related, and it has been shown that *β*-convergence is a necessary, however not sufficient condition for *σ*-convergence to be present, i.e. a reduction in the dispersion of per capita income over time.

3. An Assessment of Convergence and Disparities in the Baltic Region in a European Context

Over the past decades, an avalanche of empirical cross-section convergence studies has emerged. Especially the process of convergence or "regional cohesion" as labelled by the Commission among the members of the European Union has been examined. The enlargement of the European Union has further increased the attention of the issue of convergence.

Eckey and Türck (2008) provide a critical review of the used approaches and summarize the results. They consider both types of convergence and are studying the presence of clusters as well. For the original six members of the European Union they report a decreasing rate of convergence. This picture is also prevailing if the number of member countries is increased to 12 or 15. However, if the number of countries is increased to 25 convergence as well as divergence is reported. Cornett and Sørensen (2008b) confirm this finding with regard to β-convergence. They find a strong convergence among the members of the European Union. However, within countries a more diversified picture is reported especially for the smaller member states. Divergence is observed not only for some of the Eastern European members, but also for several Scandinavian countries. For a detailed study of the regional development of the Nordic countries, see Neubauer et.al (2007). Corrado, Martin and Weeks (2005) use an econometric approach to test for regional convergence clusters across Europe. Their results suggest that the process of regional convergence across the European Union is complex and varying in time. At sector level, they consider agriculture, manufacturing, market service and non-market service. All sectors reveal quite large numbers of regional convergence clusters suggesting that there is no single European Union wide convergence process, but rather different paths. Interestingly they find little evidence that regional convergence has been strongly influenced by the provision of the European Union Structural and Cohesion Funds.

Many of the studies of the process of convergence have found a rate of β-convergence around 2 percent. Abreu, De Groot and Florax (2005) provide an examination of this statement or "myth". They use meta-analysis and reviews around 600 randomly selected estimates of convergence all published in peer reviewed journals. Their results indicate that it is misleading to speak of a "natural" rate of convergence. Further,

correcting for heterogeneity in technology will lead to an increase in the rate of convergence. This is interesting relative to the present study because we apply the simplest approach possible and do not consider the issue of technology. Furthermore, this study tries to shed some light on the issue of convergence among the Baltic nations. We adopt the division of the Baltic region into two parts namely:

Baltic East: Estonia, Latvia, Lithuania, Russia and Poland
Baltic West: Denmark, Norway, Sweden, Finland and Germany

This division is of course debatable. We have focused on the interaction among the new market economics, and the old ones. In addition, the former planned economies are actually located in the Eastern Baltic region. Germany, as well as Poland, is rather large nations with many regions not located at the Baltic coastline. In order to highlight the Baltic dimension we have provided the reduced data set *Germany Baltic* and *Poland Baltic*. Appendix 1 gives a more detailed view on the aggregations.

For the analysis of convergence, we use statistics supplied by Eurostat on GDP per capita in Euro at the NUTS 2 level except for Denmark where we use statistics at the NUTS 3 level[1]. The small Baltic nations Estonia, Latvia and Lithuania are not regionalized in the present analysis. The Russian part of the BSR is not included in the convergence analysis either[2]. Our analysis covers 1995 to 2004, and is based on data form Eurostat. For Norway data are only are available for 2004, and the data set constructed is based on Neubauer et. al. (2007), who reports regional GDP growth rates for the period 1998–2002. These values are used for the present analysis along with data from Statistics Norway. For Denmark, we use statistics from Statistics Denmark. Finally, Russia has been excluded for the analysis of convergence due to lack of data.

Table 1 reports the results of various regressions run in order to identify β-convergence. The first row shows the convergence relation run for all EU members at the NUTS 2 level reported in Cornett and Sørensen (2008b). Observe that we are very close to the rate of 2 percent examined by Abreu, De Groot and Florax (2005). For the Baltic region in total, a higher rate of convergence is reported equal to 2.46 percent.

---

[1] The statistical material is available on request to the authors.
[2] In some of the policy-oriented frameworks like the VASAB-initiative the Russian part of the BSR usually includes the Murmansk region, Kaliningrad and the Leningrad oblast.

Figure 1 graphs the regressions for all EU members in the upper panel and the Baltic region in the lower panel. For both panels it is evident that data can be grouped by income per capita. This also confirms that the small Baltic nations share common factors as found by Fadejeva and Melihovs (2008). In addition, Cornett and Sørensen (2008b) show that for all EU members the level of income is lower in the Eastern parts of Europe than in the Western parts. Consequently, the rate of catch up will be higher.

Table 1: β-Convergence in the Baltic Region

		Constant, β_0			β_1-coefficient			R^2	Standard Error	Obs.
		Coef.	Std.dv.	P-value	Coef.	Std.dv.	P-value			
EU Total	C	22.97	0.97	0.00	–1.97	0.10	0.00	0.49	1.73	369
Baltic Total	C	26.54	1.39	0.00	–2.46	0.15	0.00	0.73	1.44	106
Baltic East	C	28.61	7.25	0.00	–6.63	1.75	0.00	0.37	1.91	26
Baltic West	C	18.75	5.80	0.00	–1.68	0.58	0.00	0.10	1.16	80
Baltic East:										
Poland	D	–13.04	8.56	0.14	2.48	1.09	0.03	0.20	0.74	23
Poland Baltic	I	12.88	10.59	0.26	–0.83	1.34	0.56	0.05	0.44	9
Baltic West:										
Germany	C	14.68	3.43	0.00	–1.34	3.87	0.00	0.23	0.59	51
Germany Baltic	I	10.60	8.42	0.25	–0.96	0.85	0.30	0.15	0.76	9
Denmark	I	–12.65	33.17	0.72	1.38	3.25	0.69	0.04	0.97	6
Sweden	D	–22.93	12.52	0.11	2.65	1.26	0.07	0.39	0.40	9
Norway	C	29.71	12.86	0.07	–2.63	1.29	0.10	0.45	0.69	7
Finland	D	–5.07	3.85	0.24	0.91	0.34	0.07	0.52	0.16	7

Note: C = convergence, D = divergence and I = inclusive. If the P-value is less than 0.10 a weak significance is observed (10 % level), if the P-value is less than 0.05 a 5 % level is noticed, and if the P-value is less than 0.01 a strong significance is noticed (1 % level).
Source: Our own research data.

The distribution of income per capita among the countries in the Baltic region is for 2004 examined in Figure 2 by using of Box-plots, and the two maps in Figure 3[1]. Initially, note that convergence is present in both regions, and that the highest rate is reached by the regions in the Baltic East equalling 6.61 percent more than 2.5 times the rate of convergence of the Baltic West. Looking at the graph and the map in the right panel of Figure 3, it is evident that the level of income is far lower in the Baltic East. The two maps in Figure 3 very distinctively illustrate the relation between growth and the level of income.

Notice further the horizontal axis in Figure 2, and observe that even the wealthiest region in the Baltic East is far below even in the most rural area in the Baltic West. In the Baltic West, the regions with the highest income are Oslo, Hamburg, Stockholm, Copenhagen and Åland regions. The poorest region included is Dessau in former Eastern Germany. Still, it has an income that is more than double the income per capita in Mazowieckie Poland, the wealthiest region in Baltic East. In the Baltic West region the mean income equals around 27,400 €, whereas in the Baltic East its amounts to about 5,100 €.

Moving back to Table 1, the lower part of the table brings some more disaggregated estimates of convergence. Due to the many nations with limited number regions, the number of observations is small and the results have to be interpreted with care. For the Baltic East region, calculations are only possible for Poland, and a situation of *divergence* is observed. The regions Mazowieckie and Centralny are moving away from the other regions.

---

[1] The authors would like to thank Postdoc, Geoinformatics, Niels Christian Nielsen at the Department of Business Communication and Information Science and Centre for Tourism, Innovation and Culture (TIC) at the University of Southern Denmark for excellently drawing the maps by use of his GIS-programs.
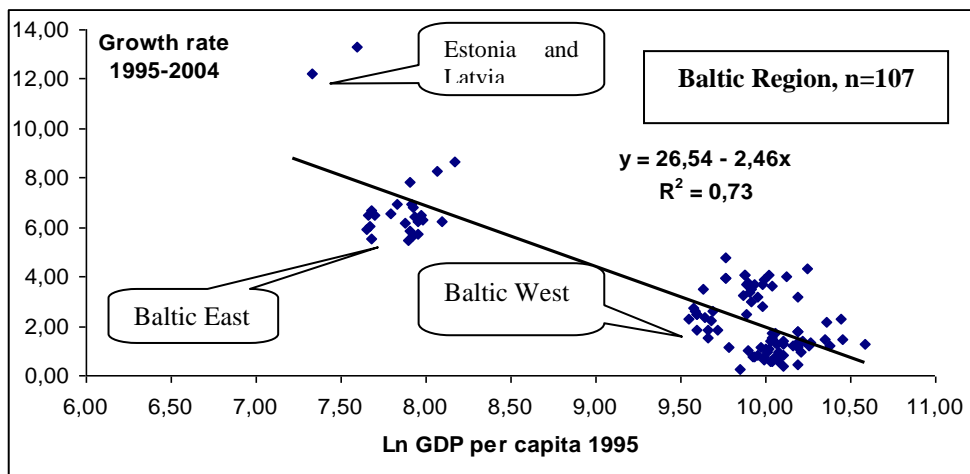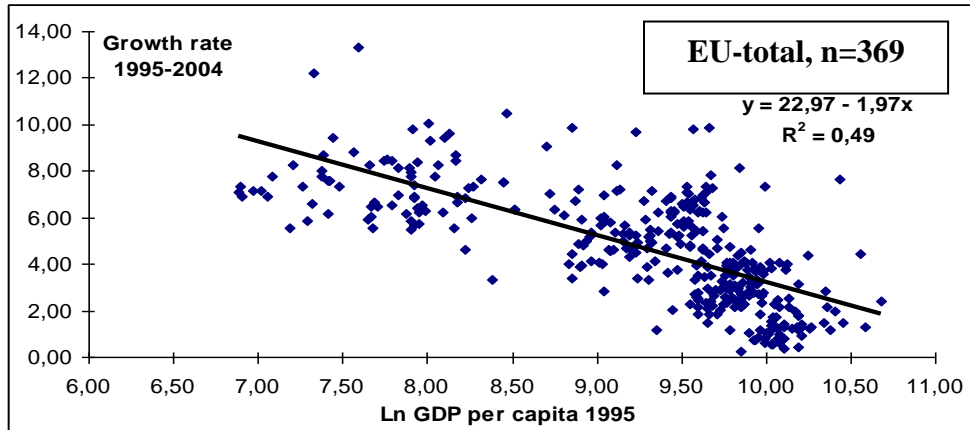
Figure 1: Scatter Plots and Regressions of β-convergence
Source: Our own calculations based on statistics from Eurostat and
Danmarks Statistik.

On the other hand, the range in income among the other Polish
regions is very little indicating a nation where the Metropolitan region is
moving away from the rest of the nation. Gorzelak (2008) explores these
issues further for Poland in a critical analysis of the regional development
in Poland and the EU cohesion policy. Cornett and Sørensen (2008b) found

a similar pattern in several other Eastern European nations. An additional investigation for Poland has been conducted with regard to convergence. *Poland Baltic* constitutes a regression run for the nine most northern regions several of them with a coastline to the Baltic Sea. This regression reveals an inclusive result.

Baltic West   Baltic East
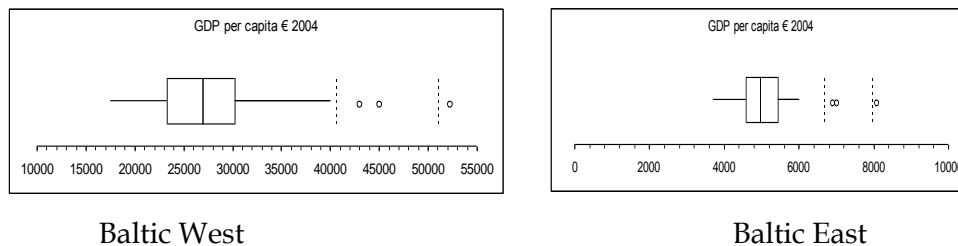
Figure 2: Box-plots of Regional Disparities in the Baltic region

Note: The Box plot is set up as follows: The median is marked as a vertical line across the box. The hinges of the box are the upper and the lower quartiles (the rightmost and leftmost sides of the box). The interquartile range (IQR) is the distance from the upper quartile to the lower quartile. The vertical dotted lines mark the inner and outer lower and upper fence respectively. The upper inner fence is a point at a distance of 1.5(IQR) above the upper quartile. The upper outer fence is a point at a distance of 3.0(IQR) above the upper quartile and vice versa with regard to the lower inner and outer fence respectively. If an observation is located between the inner and outer fence then it is considered as a suspected outlier. If an observation is located outside the outer fence then it is considered as an outlier.
Source: Our own calculations based on statistics from Eurostat (2007) and Danmarks Statistik.

        Turning to the Baltic West, Germany is a country with a slowly, but steady convergence. If we consider the nine German regions in the Baltic area, the picture is inclusive. For Sweden and Finland, a picture of divergence is observed. In Sweden, the Stockholm region is moving away

from the other parts of the country. In Finland, a similar pattern is observed, but here the regions of Helsinki and Åland are divergent and growing faster. For Denmark, the outcome (with five regions only) is inclusive. Finally, for Norway convergence although weak is found.

Cornett and Sørensen (2008b) along with Neubauer et. al. (2007) has provided a detailed analysis of the changes in regional structures in the Scandinavian countries. In sum, they report a picture of Scandinavia as a wealthy region where the metropolitan areas slowly are moving away from the other parts of countries especially their rural regions.

Annual growth in GDP per capita   GDP per capita in € 2004
1994 to 2005

Figure 3: **Economic Evolution in the Baltic Region 1995 - 2004**
Note: Exclusive Russia.
Source: Eurostat, Danmarks Statistik and Norges Statistik.

18

The next part examines whether the findings above can be confirmed by the use of *σ*-convergence. However, from Figure 1 and 2 it is observed that the average level of income per capita is substantially 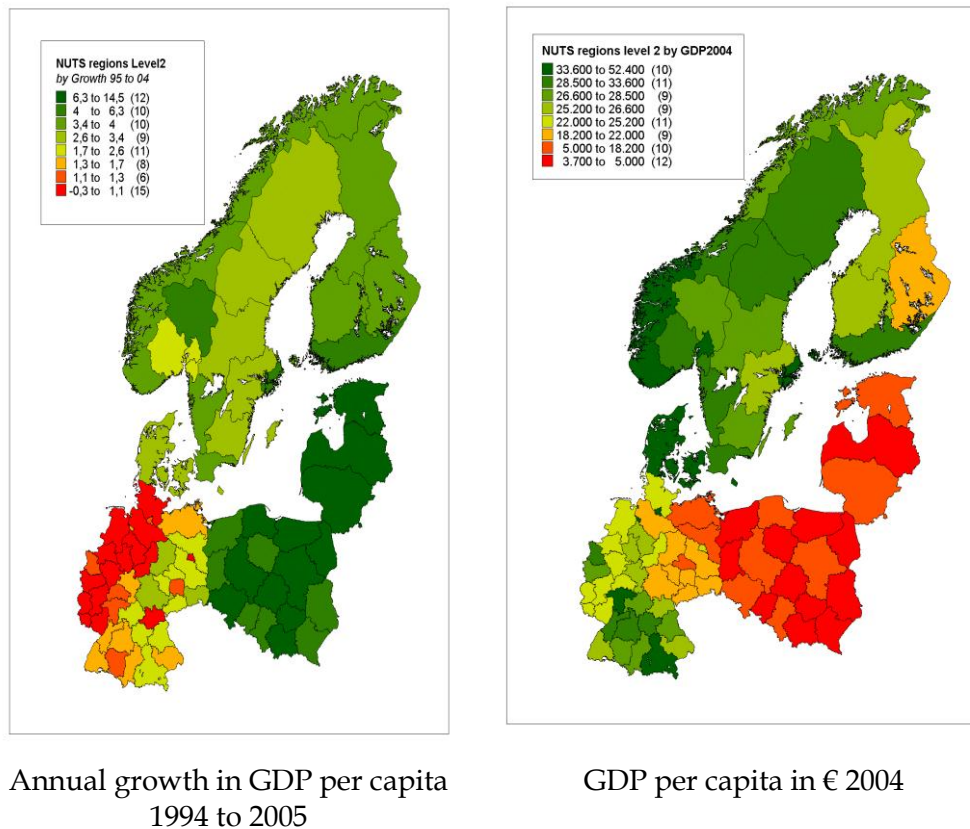lower in the Baltic East than in the Baltic West region. In order to conquer with this issue we use the coefficient of variation (CV) defined as the standard deviation divided by the average. If CV decreases, it means that convergence will take place.

Further, by using the coefficient of variation we also solve a problem frequently present in analyses of convergence over time, namely the presence of a non-stationary or trend in the considered statistics. For example, if a positive trend is present it is likely that the mean as well as the standard deviation will increase. Then, if we measure on the standard deviation, we will only observe divergence although this may not be the case.

Table 2: Estimates of σ-convergence in the Baltic Region

CV		*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
EU total	C	54.1	52.3	50.3	49.9	50.0	50.3	48.9	48.3	47.7	47.7
Baltic Total	C	57.1	55.8	54.8	54.1	54.3	52.9	51.5	51.5	52.3	51.7
Baltic East	I	19.8	19.9	18.7	19.7	20.9	20.2	21.4	20.4	20.6	20.4
Baltic West	I	22.8	22.6	22.8	22.9	23.2	23.5	23.6	23.0	22.6	22.5
Baltic East:											
Poland	D	14.5	16.4	17.5	18.5	20.6	20.1	21.2	20.8	21.0	20.5
Poland Baltic	I	10.9	10.3	9.8	10.1	11.4	11.0	10.4	10.4	9.9	10.8
Baltic West:											
Germany	I	24.1	23.6	23.7	24.0	24.0	24.2	24.6	24.0	23.4	23.1
Germany Baltic	I	36.7	36.0	36.7	37.4	36.5	36.4	38.3	38.0	36.7	36.3
Denmark	D	14.2	14.7	15.0	14.4	16.1	17.0	16.9	17.9	17.3	18.7
Sweden	D	12.4	14.1	15.9	16.6	17.6	17.6	16.9	17.2	16.3	16.7
Finland	D	16.8	18.5	17.8	20.3	22.2	19.1	22.2	20.6	19.2	18.0

Note: C = convergence, D = divergence and I = inclusive. Exclusive Norway.

Source: Own calculations based on statistics from Eurostat and Danmarks Statistik.

Table 2 examines σ-convergence. The design of the table is similar to Table 1 in order to facilitate comparison. By use of this measure, the number of groups with convergence decreases substantially. We only observe convergence for overall EU and the Baltic region in total. For Germany and Denmark, an inclusive pattern is observed, whereas the earlier observed pattern of divergence is confirmed for Sweden, Finland and Poland. Notice that a larger value of the coefficient of variation is found for the aggregates. This is so because a larger data set will normally increase the variation.

4. Growth, Trade and Competitiveness in the Nordic Hemisphere: Interregional Specialization - an Alternative Indicator of Coherence?

Until now, the analysis has focused on the regional (domestic) consequences of economic integration in the Baltic Rim region since the beginning of the transition processes in the East and the Central Europe. One driver behind this development is the change in trade and international specialization leading to a new type of spatial integration.

Spatial integration is not a common used phrase, but rather a kind of summary of a comprehensive notion dealing with an overall assessment of the importance of economic, political and social aspects of integrative processes in regional changes[1]. In particular, the last condition quoted in the footnote is restrictive. In this notion, the concept of spatial integration is the most far-reaching concept of integration, see also Table 3 below. In this analysis, the spatial concept is not merely a consequence of the physical environment, but also the result of economic and political integration.

In a BSR or regional perspective we have strong evidence that

---

[1] Among the features covered by the term 'Spatial integration' are:
"- The development of specific geographically defined systems of production such as industrial district, cluster of industries, or systems of innovation,
- A system of urban networks defined according to specific functional linkages,
- The availability of a relevant regional infrastructure linking the analyzed area together, and
- Last, but not least, the intensity of intra regional flows relative to the outside flows can be considered to be the 'conditio sine qua non' whether we talk about a spatial integrated area or not" Cornett (2008, p.212).

political and economic integration is 'powered' by spatial proximity and adjacency, but at the same time, political and economic integration reinforce the other aspect of spatial integration, accessibility, i.e. proposals for the development of traffic infrastructure.

The result of the process 'spatial integration' has to be seen in a dynamic perspective leading to trade and production system integration, here illuminated by regional trading figures offering a new perspective on interregional convergence in the BSR.

Table 3 illuminates the process of economic transition and integration based on intra-regional trade-flows for the BSR. The most important trend is that the Baltic Rim region is the dominant foreign trade partner for the smaller economies only, and that the last 5–6 years are characterized as a period of consolidation, only minor changes in the trading pattern have taken place. Of particular interest is that Russia seems to be back in a normal pattern after the extraordinary situation in the years around the turn of the millennium.

Table 3: Share of intra-regional trade (exports) as percentage of the total trade of the Baltic Rim countries since 1988

	1988	*1992*	*1996*	*2000*	*2006*
Denmark	39.8	48.7	42.5	40.9	43.6
Sweden	37.5	35.5	32.2	39.4	36.9
Norway	35.2	35.9	36.9	65.6	34.5
Finland	51.3	41.7	35.2	49.3	38.1
Germany (FRG)	13.5	8.6	9.3	9.6	11.2
German Democrat Republic (GDR)	24.6	…	…	…	…
Estonia	…	92.0	68.8	55.1	55.1
Latvia	…	61.8	48.8	45.9	33.4
Lithuania	…	57.8	46.1	33.3	55.5
Poland	46.7	47.4	48.2	29.7	39.8
Russia	34.1	18.9	21.5	75.2	22.9
Baltic Rim	26.5	17.9	18.9	19.9	21.0

Note: Figures based on exports to Baltic Rim countries as pct. of total exports. All the data have been reported by countries receiving imports. Danish exports to Sweden 1992 are based on Danish exports. For 1992 some figures are missing for former state trade countries. 1998 figures are based on export to GDR and Soviet Union. Figures for GDR trade with Germany

and SU 1988 are based on German sources and converted to USD based on annual average exchange rate at Frankfurt (ultimo 1987 and 1988).
Source: IMF 1995, 1998, 2001 and 2007. Statistisches Bundesamt 1991.

Considering the nature and the size of the German economy, the importance of the Baltic Rim as a geographical region diminishes further. With regard to trends of trade, the three Baltic States are on the way toward a trade pattern more similar to the Nordic countries and find their historical place in the regional trading system as stated by Laaser and Schrader (1992). Only for Estonia and Lithuania the share of the BSR of total trade is above 50%. For the four Nordic countries, the share of BSR trade is between 34.5% for Norway and 43.6% for Denmark. Overall, the patterns have been very stable despite of the year 2000 for Norway, which is probably effected by energy exports, see below.

The issue of trade is further explored in Figure 4 giving the export in the Baltic Region based on reported imports from the receiving country. The figure is built up as a map where the textboxes gives the trade figures. The number in the parenthesis is the share of imports out of all imports from the Baltic Region. Especially the small Baltic nations and Denmark have substantial trade within the region. Notice also that the share for Germany is low. This is due to her size. Looking at the trade partners Germany is indeed important for all the other nations. Further, the map stresses the importance of the Linder hypothesis. In general, close relations are observed for countries sharing a land border line.

Figure 4: Intraregional Trade in the Baltic Sea Region based on Export in Billion €
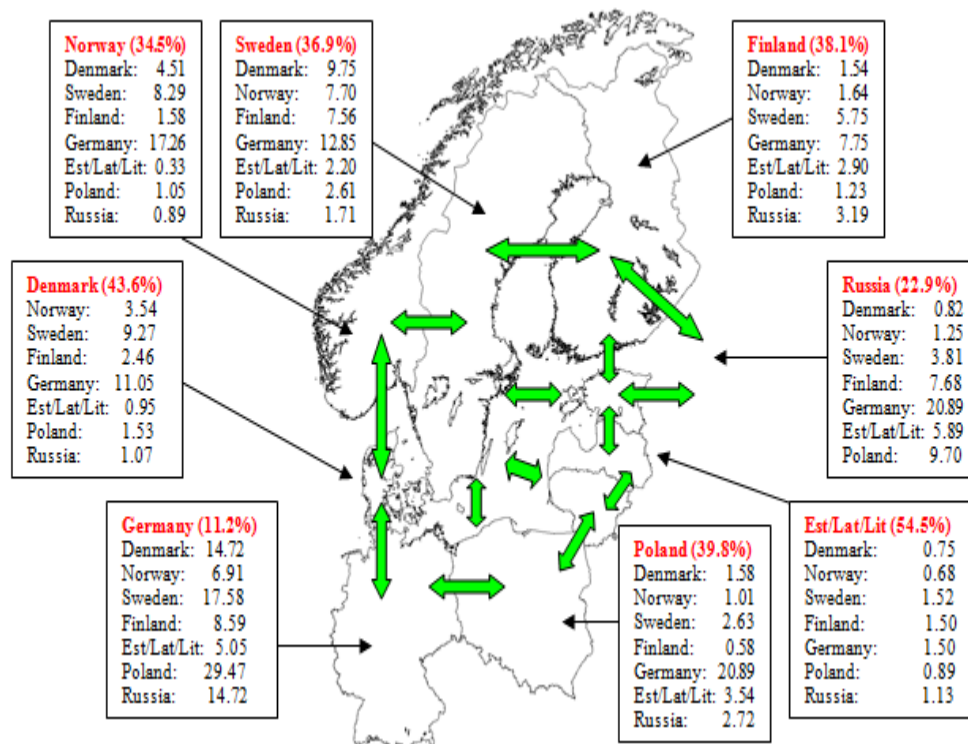
Note: The number in the parenthesis is the share of exports out of all exports originating from the Baltic Region. Data has been converted from USD to € by use of the annual average exchange rate. The export figures are based on import data from receiving countries.
Source: Directions of Trade Statistics Yearbook (IMF 2007).

An alternative measure of coherence within the international system of production can be obtained by an analysis of specialization of international trade. One of the classical models of economic development stated that an increase in exports would lead to an increase in income. This export generated growth model will also be valid in a regional context. Sørensen (1996) developed a regional growth model with two trade

constraints namely a foreign one and a regional one. In general, regional trade was larger than foreign trade, due to the presence of the Linder hypothesis. Regions can be either domestic or internationally orientated relative to trade. It can be showed that this orientation has influence on the business cycle.

A commonly applied method in order to measure the amount of trade flows is to consider the amount of inter-industry trade. Intra-industry trade may be defined as the two-way exchange of goods in which neither country seems to have a comparative advantage. Intra-industry trade consists of the simultaneous exports and imports of products classified within the statistical product group j.

A straightforward application of this definition is the well known unadjusted GL_j index proposed by Grubel and Lloyd (1975) and defined for product group j as

$$GL_j = \left[1 - \frac{\left| X_j - M_j \right|}{(X_j + M_j)} \right] \times 100$$

X denoting exports and M imports. The index measures the amount of *IIT* in product group j. The value of the index will range from zero to 100 percent. When X_j or M_j equals zero there will be no overlap, so no *Intra-Industry trade* will take place. On the other hand if $X_j = M_j$ matching will be complete and GL_j equals unity. Further, the index is non-linear. For example, the rate of increase of GL_j for constant increases in M_j (or X_j) for a given level of X_j (or M_j), decreases as M_j (or X_j) increases. By weighted additive aggregation across all $j= 1, \ldots , N$ product groups we obtain the aggregate *GL*-index.

$$GL = \left[1 - \frac{\sum_{j=1}^{N} \left| X_j - M_j \right|}{\sum_{j=1}^{N} (X_j + M_j)} \right] \times 100$$

This index may be biased by at least two conditions working in opposite directions. First, a negative bias will be imposed, because trade at the industry level will match only by coincidence, trade overlap will arise, and the *GL*-index cannot attain its maximum value 1. Second, a positive bias will be imposed, from the use of categorical aggregation which occurs when products are inappropriately grouped together. For example, moving

from a lower to a higher SITC-level may result in the creation of heterogeneous product groups. This may lead to mismatch. See also Sørensen et. al (1991) and Lüthje (1997) who consider the issue of horizontal as well as vertical trade.

The idea behind this approach is to identify some of the fundamental trends of cooperation and integration of the international system of production in a regional BSR-context. It's well known that geographic proximity is one, if not the most, important factor behind international trade. Intra EU trade has dominated the foreign trade of the member states, just as trade with the EU had dominated the foreign trade of most non–EU countries in Western Europe before they became members. In particular, business to business trade - an indicator of the integration of the production system - is of increasing importance. In this perspective, growth of intra-industry trade is an indication of convergence of at least the production system of the involved economies[1].

An analysis of intra-industry trade based on Grubel-Lloyd type of index is very sensitive to the level of dis-aggregation of the data chosen for the analysis. If the dis-aggregation is very high, i .ex. 4 or 5 digit level of the SITC (Standard International Trade Classification), the analysis provides detailed insight into the nature of bilateral trade and in particular in the nature of the distribution of competitive advantages between countries. In any case also a less specified analysis can provide useful insight in the development and direction of integration and specialization processes within the BSR and with outside partners.

---

[1] For an application of the concept in a European perspective, see Cornett (2002), and in the BSR Cornett (2001). This section represents in many regards an update and extension of the results presented in the latter.
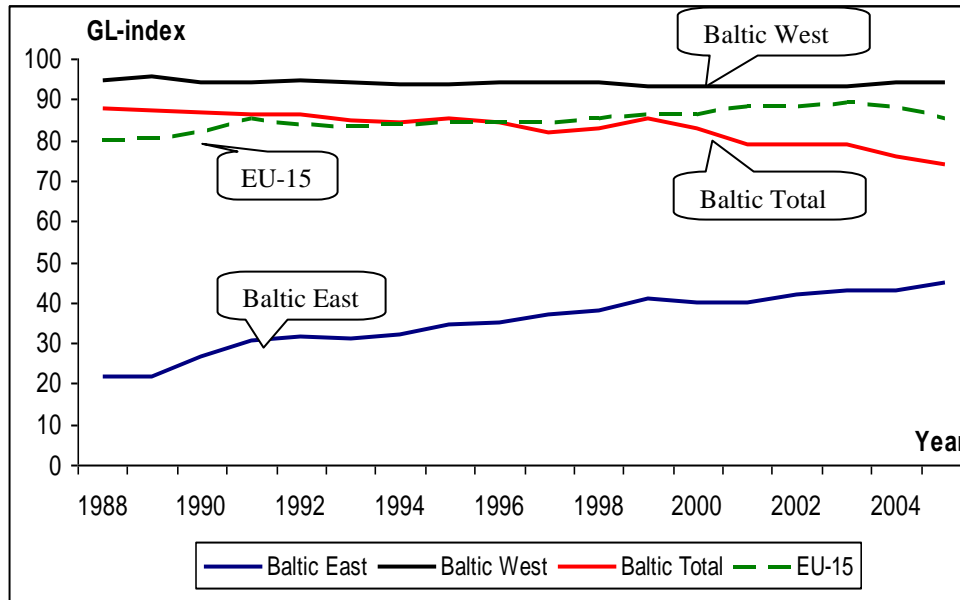
Figure 5: Intra-Industry Trade of Baltic Rim West 1988-2005
Note: Data according to Harmonized System Rev. 1 1988-1996 and Rev. 2 1996-2006. Grubel Lloyd index estimated on 2-digit level 100 (100 commodities). Commodity classification not fully comparable; data are based on chain-index. Chain is based on 1996 data.
Source: OECD, ITCS, 1998, 2000 and 2007.

Figure 4 provides an overview of the long-term trends of internal BSR intra-industry trade based on data reported from the five old market economies in the region[1]. A relation to the observed structure in income per capita found in Figure 2 and 3 is evident. The level of intra-industry trade in the Baltic East area is lower than in the Baltic West area where it is above the EU-15 average level.

---

[1] Unfortunately, the data from ITCS are only available based on OECD countries as reporting country, but the figure still provides a useful measure for trade integration and specialization in the BSR.

Table 4: *Intra-Industry Trade in the Baltic Rim for the Six OECD Members in the Region*

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Denmark:											
Baltic East	31	32	31	36	32	35	39	40	42	48	47
Baltic Rim	72	70	71	73	76	77	78	78	76	73	72
EU-total	68	68	69	70	70	71	71	72	71	69	68
World	73	73	74	76	77	77	77	77	77	77	77
Finland:											
Baltic East	35	35	33	33	34	36	31	29	27	30	29
Baltic Rim	72	71	72	70	68	73	70	69	70	69	68
EU-total	59	58	56	55	52	55	54	52	54	59	60
World	63	63	64	63	64	65	63	63	65	67	67
Germany:											
Baltic East	32	32	36	40	40	41	44	47	43	43	42
Baltic Rim	47	46	49	51	50	51	52	51	49	52	51
EU-total	76	76	77	76	75	75	75	74	73	74	76
World	72	73	75	76	77	75	75	74	74	74	75
Sweden:											
Baltic East	41	48	49	49	50	45	44	46	48	45	…
Baltic Rim	77	79	81	80	79	80	79	81	82	80	…
EU-total	73	73	78	77	79	75	76	77	79	79	…
World	73	74	76	75	76	77	75	74	75	77	…
Norway:											
Baltic East	50	43	50	53	41	43	45	37	36	38	…
Baltic Rim	49	49	47	49	45	45	42	42	41	34	…
EU-total	34	34	38	36	30	30	29	28	26	23	…
World	39	38	41	40	33	36	37	35	33	31	…
Poland:											
Baltic East	13	11	12	12	8	9	10	10	11	12	…
Baltic Rim	33	35	35	33	37	41	45	49	53	54	…
EU-total	48	50	52	54	61	62	65	66	69	68	…
World	52	53	55	56	61	65	69	70	75	73	…

Note: Data according to Harmonized System Rev. 2 1996-2006. Grubel Lloyd index estimated on 2-digit level 100 (100 commodities).
Source: OECD, ITCS, 2007.

During the period, the amount of intra-industry trade in the Baltic East region has been constantly increasing. Overall, a moderate pattern toward convergence of foreign trade toward a higher share of intra-industry trade indicate the integration into the western market based a system of production. If the analysis is conducted on a rather modest level of dis-aggregation, the results have to be interpreted carefully. In this case, a high level or increasing share of intra-industry trade is only an indication of sectoral convergence of the considered economies foreign trade sectors. The figures reported in Table 3 and 4 have to be seen in this perspective.

Table 4 provides a brief overview of the level of intra-industry trade of the six OECD member countries in the region. Apart from Germany, the level of intra industry trade for the old market economies in the Baltic Rim area as a whole is higher compared to the total of foreign trade. The considerable low level of intra-industrial trade in the case of Norway is caused by the high share of crude oil and fuel in Norway's exports. With regard to East-West trade, intra-trade is significantly lower, but generally increasing during the period reported. The latter can be seen as an indicator of increasing integration of the transition economies into the regional system of production and specialization. An examination of non-agricultural trade confirms the pattern reported in Table 3, generally with slightly higher scores on the Grubel Lloyd index (Cornett and Sørensen 2008a).

The figures for the Baltic rim countries as a whole shows a high degree of coherence for the production system defined as high shares of intra-industry trade[1] measured on the 100–digit level. To what extent this can be interpreted as traditional trade based on comparative or competitive advantage is a another question, since the low level of disaggregation of our data does not allow a closer examination of intra-industrial trade, but only indicates the linkages of the production systems between the old and new market economies. In our analysis, this underpins the division of functions in the spatial production system rather than an overall convergence of the systems[2].

---

[1] The figures reported here underestimate the intra-industry trade of the EU countries in the region because of the lower level of intra-trade of the transition economies (and Norway) being included.

[2] This is in accordance with the findings in Paas & Tafenau (2005, p. 15): "The clear

According to the approach of this study, the level of intra-industry trade on the high level of aggregation is used as an indicator for integration of the production system, partly based on comparative advantages, partly and over the course of time to a higher degree on competitive advantages.

Table 5: Intra-Industry Trade of the 5 Western BSR-countries with selected partners

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
World:											
All commodities	73	73	74	76	77	77	77	77	77	77	77
Non agricultural products	79	78	78	81	81	82	81	81	80	80	80
EU-15:											
All commodities	68	68	69	70	70	71	71	72	71	69	68
Non agricultural products	73	74	74	74	74	76	75	76	74	72	70
BSR-West:											
All commodities	95	95	95	94	95	95	95	95	95	96	82
Non agricultural products	95	95	96	94	95	95	94	95	95	96	82
Estonia:											
All commodities	53	51	47	55	60	47	48	50	55	56	54
Non agricultural products	55	53	48	57	61	48	49	51	56	57	56
Latvia:											

distinction of the BSR as a trade cluster supports the view that there have been special relationships between countries of the region in existence favouring quick integration of economies with different factor endowments". This is also supported by the important role the western BSR countries have with regard to Foreign FDI in the eastern part of the BSR, see Cornett & Snickars (2002).

All commodities	36	39	34	28	24	23	24	26	27	38	29
Non agricultural products	39	41	35	27	24	22	24	26	26	38	29
Lithuania:										
All commodities	27	25	26	33	31	28	30	30	33	34	33
Non agricultural products	27	24	25	31	31	28	29	29	33	33	32
Poland:										
All commodities	28	29	28	29	35	38	41	45	49	50	51
Non agricultural products	28	29	28	29	35	39	42	46	49	49	51
Russia:										
All commodities	15	14	15	13	12	12	13	12	10	9	9
Non agricultural products	15	14	14	13	11	11	11	11	9	9	8

Note: Data according to Harmonized System Rev. 2 1996-2006. Grubel Lloyd index estimated on 2-digit level 100 (100 commodities). Figures for 2006 do not include data for Norway and Sweden.
Source: OECD, ITCS, 2007.

Usually, as mentioned above, this also leads to a higher level of intra-industry trade development for the nonagricultural trade. In previous studies this was much more significant (compare Cornett (2001) and (2002)). According to Cornett & Sørensen (2008a) the difference still exists, but has narrowed down during the analyzed period. The overall level is almost stable for the old market-economies, but as mentioned already the trade with the post-communist countries has continued toward higher shares of intra-industry trade[1]. The faster change of agricultural trade has

---

[1] The figures of the 5 Western BSR economies are to some extent affected by the fact that the BSR-level of intra-industry trade for Norway declined from 46–47 to 30 on the two

several explanation, i.e. that the agriculture also has become an increasingly international integrated industry both within the old market economies and with regard to the eastern part of the BSR.

5. Convergence and Spatial Integration in Northern Europe – Results and Perspectives

Regional divergence and overall European convergence has been visible for many years, not only in the old western EU-15, but also in the enlarged European Union (EU-25). This paper has reexamined the pattern with special attention on Northern Europe, i.e. the Baltic Rim region. The initial hypothesis that large intra-regional disparities not necessarily lead to lower economic growth on national level than smaller disparities do is confirmed by the present analysis of data for income and trade.

The Baltic Region is a region with large intra-regional disparities[1].

---

indicators from 1996 to 2005, representing the huge increase in the relative importance of energy in Norwegian exports.

[1] The table below summarizes the nature of intraregional differences by comparing the richest and poorest regions in the BSR countries based on NUTS II regions of the EU regional classification were applicable or based on national data similar to EU NUTS III level. Within all BSR countries huge regional disparities exist, but due to differences in the regional delimitation the figures are only rough indications, but very illustrative. The most interesting measure is probably to compare the poorest region with the national average rather than with the best performing area, often a rather narrow defined metropolitan region heavily depending on commuting from suburbs outside the city-limits.

Regional disparities in BSR countries 2000 (GDP per cap. PPS)

	National average		*Richest BSR region*		*Poorest BSR region*	
	EU-15 100	*EU-25 100*	*Name*	*Index EU-15*	*Name*	*Index EU-15*
Germany	106.4	117.3	Hamburg	181.5	MVP	69.4
Denmark	118.6	130.7	…	…	…	…
Finland	104.0	114.6	Uusimaa	143.2	Väli-Soumi	74.5
Sweden	106.6	117.5	Stockholm	147.0	Norra Mellan	91.0
Poland	38.9	42.8	Pomorskie	39,1	Waminsko Maz.	29.0
Lithuania	35.7 (29)	39.3	Vilnius	(35)	Taurage	(22)
Latvia	30.9 (26)	34.0	Riga	(37)	Latgale	(16)
Estonia	40.1	44.2	Közép-Mag.	75.6	Észak-Alföld	31.5
Russia	…	…	…	…	…	…

The level of GDP per capita is much lower in the former planned economies Poland, Estonia, Latvia and Lithuania than in the Scandinavian economies. Even the wealthiest region in Poland is on a significant lower level than the poorest region in the former East Germany.

Economic growth and the development of inter- and intra-regional disparities are investigated by using the concept of β-convergence. The analysis of the countries confirmed the overall pattern of convergence among the nations forming the Baltic Region for the period from 1995 to 2004. The degree of convergence is more than 2.5 times higher for the Eastern Baltic region reaching a level of 6.83 percent than for the Baltic West region. This pattern is confirmed by use of σ-convergence. At the national level, the picture is much more unclear. The Baltic East region has experienced some very high levels of growth rates. However, in Baltic East region as well as in Baltic West region a pattern of divergence is observed, and confirms previous tendencies. The metropolitan regions and large cities are moving away from the rural districts. This pattern is especially visible in Poland, Sweden and Finland. For Germany and Norway, convergence is observed. The Baltic parts of Poland and Germany has not experienced a diverging pattern relative to the national patterns due to the geographic location. So, here a special Baltic effect is not observed.

The tendency toward a more homogenous development is also confirmed by the analysis of bilateral trade and specialization. In general, the nations around the Baltic Sea are deeply engaged in trade with each other. Especially, the three small Baltic economies have a high intra-regional trade share, in some case exceeding 50 percent. In 2006, the share for all countries except Germany and Russia were above 1/3 of the total exports of the countries. With regard to the integration of the Eastern part of the BSR into the Western production system, here measured by the level of intra-industry trade; the Baltic East is still on a much lower level than intra-industry trade among the Nordic countries. Whereas the level of

Note: Germany: Schleswig Holstein, Hamburg, Meklenburg Vorpommern (MVP). Poland: Pomorskie Waminsko Maz. Kujawsko-Pomorskie Figures for Lithuania and Latvia: (1996).
Source: European Commission (2003), Table 12. Nordregio (2000), here quoted from Cornett (2004), p.132.

internal intra-industrial trade of the western BSR-countries and with the EU as a whole has been stable in the investigated period, the intra-industrial trade with the Eastern parts of the BSR shows a constant positive trend doubling the index-value from 1990 to 2005, see Figure 5 above.

Appendix 1: Baltic Regions in Poland and Germany

Germany Baltic:
Schleswig-Holstein, Hamburg, Lüneburg, Mecklenburg-Vorpommeren, Brandenburg and Berlin.
Poland Baltic:
Zachodniopomorske, Pomorskie, Warminsko-Mazurskie, Kujawsko-Pomorskie and Podlaskie.

   Notice that the number of regions is larger than indicated due to a more detailed division of our statistics than indicated by the map below.

References

1. **Abreu, Maria, Henri L. F. de Groot and Raymond J.G.M. Florax** (2005) *A Meta-analysis of β-Convergence: The Legendary,* Journal of Economic Surveys 19.
2. **Barro, Robert J., and Xavier Sala-i-Martin** (1991) *Convergence Across States and Regions,* Brookings Papers on Economic Activity 1.
3. **Corrado, Luisa, Ron Martin and Melvyn Weeks** (2005) *Indentifying and Interpreting Regional Convergence Clusters across Europe*, in Economic Journal, 115.
4. **Cornett, Andreas P.** (2008) *Economic Integration in a cross border perspective: An emerging new system of production,* in International Journal of Public Policy, Special issue European Integration, Regional Growth and Cohesion, Inderscience publishers.
5. **Cornett, Andreas P.** (2004) *Regional Perspectives on Integration in the Baltic Sea Region,* in Søren Dosenrode and Henrik Halkier, The Nordic Regions and the European Union, in 'The International Political Economy of New Regionalisms Series, Asgate, Aldershot, UK & Burlington, VT, USA 2004.
6. **Cornett, Andreas P.** (2002) *Regional Cohesion in an enlarged European Union - an analysis of inter regional specialization and integration*, in Cuadrado-Roura, J.R. and Parellada, M. (eds), The European Monetary Union and Regional Convergence, Facts Prospects and Politics, Advances in Spatial Science, Springer-Verlag Heidelberg New York, 2002.
7. **Cornett, Andreas P.** (2001) *Regional Economic Integration in the Baltic Rim: Towards a European Region after ten Years of Transition?,* in Johannes Bröcker and Hajo Herrmann (eds.) Spatial Change and Interregional flows in the Integrating Europe - Essays in Honor of Karin Peschel, Contributions to Economics, Physica Verlag, Heidelberg_New York 2001.
8. **Cornett, Andreas P. and Folke Snickars** (2002) *Trade and Foreign Direct Investment as Measures of Spatial Integration in the Baltic Sea region*, in GEOGRAHIA POLONICA, 75, 2 autumn 2002.
9. **Cornett, Andreas P., and Nils Karl Sørensen** (2008a), *Interregional and intra-industry trade in the Baltic Sea Region*, back ground paper for the Vasab 2020 initiative, Danish Institute of Border Region Studies (IFG), Sønderborg, 2008. (http://www.vasab.org/i/documents/projects/APC-NKS-Vasab-report-final.doc. Last accessed December. 2010)
10. **Cornett, Andreas P. and Nils Karl Sørensen** (2008b) *International vs. Intra-national Convergence in Europe – an Assessment of Causes and Evidence*, in Investigaciones Regionales No. 13, Otoño 2008, Asociación Española de Ciencia Regional, Madrid.

11. *Danmarks Statistik,* Regional accounts, Copenhagen, Denmark.
12. **Eckey, Hans-Friedrich and Matthias Türck** (2008) *Convergence of EU-Regions: A Literature Report*, in Investigaciones Regionales, No. 12, Asociación Española de Ciencia Regional, Madrid.
13. **European Parliament** (2007) *Regionale Ungleichheiten und Kohäsion – Strategien für die Zukunft,* Fachabteilung Struktur- und Kohäsionspolitik, Mai 2007, Brüssel (IP/B/REGI/IC/2006_201 PE379.205 DE).
14. **Eurostat** (2007) *Regio Data* www.europa.eu.
15. **Fadejeva, Ludmila, and Aleksejs Melihovs** (2008) *The Baltic states and Europe: common factors of economic activity,* in Baltic Journal of Economic 8, no. 1.
16. **Gorzelak, G.** (2008) *Development of Polish Regions and the EU Cohesion Policy,* in Stubelt, W., and Gorzelak, G. (editors): City and the Region. Papers in Honour of Jiri Musil. Budrich UniPress, Opladen and Farmington Hills.
17. **Grubel, Herbert G., and Peter J. Lloyd** (1975*) Intra-Industry Trade*, Macmillan Press. London.
18. **IMF** (1995ff), Direction of Trade Statistics Yearbook, Washington.
19. **Laaser, C.-F. and K. Schrader** (1992) *Zur Reintegration der baltischen Staaten in die Weltwirtschaft*, in Die Weltwirtschaft, Heft 2, 1992, Kiel.
20. **Lütje, Teit** (1997) *Om opgørelsen af den danske intra-industrielle handel*, pp. in Nationaløkonomisk tidsskrift, 1997, Vol. 135, no. 3.
21. **Molle, Willem** (1999) *The Dynamics of Economic Integration and the Cohesion in the EU: Experience from the Past and Challenges for the Future*, in Fischer, M.M. & P.Nijkamp, (eds.) Spatial Dynamics of European Integration Regional and Policy Issues at the Turn of the Century, Springer-Verlag Berlin/Heidelberg 1999.
22. **Neubauer, J., Dubois, A., Hanell, T., Lähteemäki-Smith, K., Petterson, K., Roto, J., and Steineka J.M.** (2007) *Regional Development in the Nordic Countries,* Nordregio Report 2007:1.Stockholm.
23. **Norges Statistik**, *Regional accounts*, Oslo.
24. **OECD-ITCS** (1998, 2000 and 2007*), International Trade by Commodities Statistics*, Harmonized System, Paris.
25. **Paas, Tiiu and Egle Tafenau** (2005) *European trade integration in the Baltic Sea Region – A gravity model based analysis*, HWWA Discussion Paper 331, Hamburgisches Welt-Wirtschafts-Archiv (HWWA) Hamburg Institute of International Economics, Hamburg.
26. **Quah, Dan** (1993) *Galton's Fallacy and the Tests of Convergence Hypothesis,* in CEPR Discussion Paper no. 820, London.

27. **Solow, Robert M.** (1956) *A Contribution to the Theory of Economic Growth*, Quarterly Journal of Economics 70.

28. *Statistisches Bundesamt* (1991), Statistisches Jahrbuch 1991 für das vereinte Deutschland, Metzler Poeschel Wiesbaden 1991.

29. **Sørensen, Nils Karl, Bent Dalum, Erik Strøjer Madsen and Jørgen Ulff-Møller Nielsen** (1991), *Intra-Industry Trade in Denmark and Ireland. Memo 1991-19*, Department of Economics, University of Aarhus.

30. **Sørensen, Nils Karl** (1996) *Regional Trade and Modeling Regional Growth. The Case of the County of South Jutland*, in: Mønnesland, J. et.al. (editors): Regional National Accounts in Scandinavia, NordREFO Working Paper series *1996:9*.

SMALL RETAILING, TOWN CENTRES AND INLAND TERRITORIES. AN "EXTENDED TOWN CENTRE MANAGEMENT" PERSPECTIVE

Professor Fabio Musso
University of Urbino "Carlo Bo", Italy[1],

Abstract
This paper aims to analyze the public policies that can be adopted in order to support small retail firms located in town centers and countryside small towns. The role of small retailing has been recognized for the preservation of an economic, social and cultural identity of both town centers and rural/mountain areas. The field of this analysis is more extended than that covered by the Town Centre Management (TCM) literature that is mainly focused on city centers. In this case the study is also addressed to smaller towns and inland areas. A case study of an Italian province has been conducted with the objective to underline the main factors that need to be considered by local administrators for the adoption of coordinated policies.

Keywords: *Town Center Management, small retailing, urban planning, rural development.*

JEL Classification: R58, L81, M38, O18

1. Introduction

This paper analyzes the role of small independent retailing facing the changing dynamics of the commercial distribution system in Italy. More broadly, the analysis will cover the relationship between urban settlements and new places of economic and social attraction (planned shopping centers), and the consequences that the increasing presence of modern retrial structures can determine to the social tissue of both town centers and inland/rural areas.

The emergence of planned shopping centers is contributing to pauperize the social-economic structure, not only within town centers but

---

[1] Fabio Musso, Department of Economics, Society and Politics, via Saffi, 42, 61029 Urbino (PU), Italy, phone +39.0722.305.509/520, fax +39.0722.305.541, fabio.musso@ uniurb.it

also in more remote rural and mountain areas. In both cases the common influencing factor is the increased mobility of people that support the attractiveness of modern commercial and entertainment facilities, usually located in peripheral or suburban areas.

The analysis extends beyond the traditional field of studies on the relationship between traditional and modern retailing. In these studies a central role is assigned to the city, around which most of the changes are taking place. This work seeks to identify, according to the different assets of economic and housing settlements in the territory, what are the conditions to counter the threat of loss of economic and commercial activities at the local level.

The theoretical references for the analysis are related to two main areas: the first is on the characteristics and role of small retailing, and in particular the social and economic effects at a local community level of the presence of small independent retail businesses. The role of small retailing is also considered in front of the modernization process of the distribution system.

The second area refers to the Town Centre Management (TCM) and its related matters, particularly those regarding retail location planning, promotional activities and strengthening of attractiveness for residents, shoppers and a wide range of visitors for business, tourism and other activities.

At the empirical level the case of the Italian province of Pesaro and Urbino was analyzed, as an example of the methodologies that are being adopted by West-European local administrations in order to contrast an unbalanced urban development.

Evidences from the examined case have been compared with the main experiences of exploitation of urban, suburban and peripheral inland areas (included mountainous territories) that have been conducted both at national and international level.

Afterwards, some guidelines for public policy to support small retailing, as a factor that contributes to the vitality of city centers and inland territories, have been outlined. These guidelines are mainly referred to: a Town Center Management calibrated on the characteristics of smaller towns; the development of associative organizations among smaller retailers to promote economies of scale and also for the development of assortments that are suitable to the needs of peripheral retail typologies; the

development of innovative retail formats that could favor a better market positioning of small retail businesses, complementary to large modern retail structures.

The main field on which the role of small retailing can be played is that of opening hours/days of retail outlets and the provision of services – that can be extended over the traditional field of trade services – in order to fulfill specific local needs, and at the same time to ensure the economic sustainability of the firms involved.

2. The characters of small and medium retail firms

While the literature on small manufacturing firms provides a wide framework to interpret their role and economic/market potential in different sectors and geographical contexts, in the case of retail firms most of the theoretical contributions tend to consider them as a secondary and not relevant subject. Indeed, the greater part of the studies about retailing is focused on large and modern distribution companies.

Several analyses on smaller retail firms tend to emphasize their condition of backwardness and marginality in an evolutionary framework characterized by a growing weight of modern retailing (which is implicitly associated with a large firm size).

However, some studies have offered interpretive models that outline the characteristics of small and medium-sized distribution firms and the role they play (Dawson, Kirby, 1979, Davies, Harris, 1990, Howe, 1992, Musso, 2007).

Moreover, economic and social influences at the local level have been analyzed as regards the presence of small independent retailing. Some key issues have been highlighted (Smith, Sparks, 2000):
- consumer supply of products goods and services;
- provision of diversity, "colour" and choice in the commercial offer;
- dynamism and local adaptation;
- feeding of economic activities related to the presence of retail firms (suppliers of products, services, capital goods);
- employment generation and maintenance.

The typical profile of the smaller distribution firm that the literature describes is that of a firm where ownership, management and

entrepreneurship are all in the hands of the same person, that is also the main provider of work (Smith, Sparks, 2000).

For this type of firm the main objective is to maintain the market position and firm's size. Thus, the entrepreneur usually is not pursuing a growth, avoids risks and innovation, and organizes the firm by routine activities.

These characteristics identify those retail businesses known as "traditional", but it must be considered that many small retailers play an active role in the market, consistently with their small-business character. This is not in opposition to the concept of modern retailing, as they are willing to make investments for innovation and firm's growth.

In this regard, taking into account some key factors that identify retail firms, such as quality of ownership/management, company size and retail type (format and business model), four types of small retail firms can be classified (Zanderighi, 1990):

- *Small "refuge" firms*, operating with a small shop, not competitive in the market. They survive not necessarily for economic reasons, as the entrepreneur can have difficulties in finding alternative sources of income. The lack of generational change, the presence of barriers to exit the sector or the lack of job alternatives is usually the main reasons of the persistence of this type of firms.
- *Small "craft" firms*, which operate through a single store with the prevalent use of the entrepreneur labor. Firm performance is closely dependent on the skills with which the sales function is carried, and on the ability to differentiate the assortment and the service offered.
- *Small "entrepreneurial" businesses*, characterized by a small to medium sales area with a prevailing use of employed work. Management criteria are more advanced, with the entrepreneur playing a coordinating role.
- *Medium-sized enterprises*, which operate through multiple outlets with a common format, and that, are well placed in a competitive local context. Management methods tend to be similar to those of major companies, but they don't reach the same scale dimension to achieve the corresponding economies (especially in the functions of supplying and marketing).

The analysis on small and medium-sized retail firms should be conducted taking into account all their distinguishing features, not only

with reference to the "traditional" retail firms, according to an approach that can overcome the contraposition to large firms. Indeed, a modern distribution system can also include small firms that play a complementary role along with large retailers.

3. Key issues for a small retailing role in a modern distribution system

In addition to the "subjective" characters of small retail firms that have been seen in the previous section, also the characters derived from objective conditions should be considered. Such objective characters, however, are often consequential of specific management decisions. Among these characters three of them can be identified, that are of greater importance as they are critical to firm adaptation to market changes. They are: *firm size*, the belonging to *strategic groups*, and *location* (Musso, 2005).

About *firm size*, it was emphasized that it represents a serious factor of weakness, especially below a minimum thresholds. The results usually recorded by smaller firms are always lower than those of large retailers, and the smaller is the size, the greater is the difference in results compared to large businesses.

It is among micro-firms that a position of marginality prevails. This criticism increases if, in addition to a lack of management capabilities, difficulties in the following fields arise:
- setting competitive assortments (in terms of price, uniqueness, or specialization),
- problems in coping with the extended opening hours/days, or
- financial difficulties.

With reference to the belonging to *strategic groups* in various forms of association (buying groups, cooperatives, voluntary chains) or affiliation (franchising and other contractual agreement which allow a high degree of vertical relational integration), they can be considered as the best response in the competition with large multiple retailers. This is especially true if the benefits of centralized supplying activities are combined with centralized marketing and service policies.

Finally, as regards the *location*, it represents a factor whose importance is growing, especially in relation to two orders of phenomena. On the one hand, there is the increased information capacity (i.e. selective)

and mobility of consumers. This is altering the traditional priority of proximity locations or of socialization places (city and town centers) in the choice of point of sales. On the other, there are changes in the forms of social interaction and leisure that are influencing consumers' buying behavior in favor of new places of attraction that is not only for shopping but also for entertainment.

The result is that differences between the various locations are marked, with businesses located in the most attractive ones (mainly the malls and planned shopping centers) that are facilitated by increasing inflows, thanks also to coordinated specific initiatives to draw customers.

This brings to a problematic condition of retail firms inside the city and town centers. Town centers can be considered as "natural" shopping centers, but in Italy they fail to fully exploit their potential because of a usability that is only apparently on a human scale: the pedestrian areas are not supported by adequate parking and public transport systems; access conditions are disadvantaged compared to shopping centers; there is a lack of planning on the presence of trade activities; there is a lack of initiatives for attraction and animation. All these factors contribute to weaken the ability to draw consumers.

In addition to the three objective characters above, in the light of which the competitive weakness of a number of smaller retail firms must be interpreted, a fourth factor can be added, that is more directly linked to the strategies adopted. It is the *retail type positioning*, i.e. the combination of structural features, assortments – both quantitative (width, depth and breadth) and qualitative (quality, uniqueness/exclusiveness, brands) - and mix of services. The positioning determines the identity of each company in relation to its target market.

Undoubtedly, the ability to identify a correct positioning can significantly reduce the objective limits beyond which a small firm can suffer. However, it is necessary that the corresponding choices are accompanied by marketing tools consistent with them. In this regard, it should be noted as many difficulties are due to the inability to link all aspects of management with the strategies adopted. It is a problem of management culture that has no easy solution because small entrepreneurs tend not to prioritize the training of human resources, included themselves.

4. Criticisms of urban retail locations: the Town Centre Management perspective

Among the critical variables that determine the role and competitiveness of small retail firms there is the context in which they operate. This factor has a strong influence on their potential, as well as the mechanisms of attraction on the final demand resulting from the combination of urban, infrastructural, demographic, social, and cultural conditions in a particular area.

Until a few decades ago, the location of trade activities always developed alongside the urban agglomerations, becoming at the same time a factor of attraction and growth. This condition has changed due to increased mobility of consumers and the simultaneous development of modern distribution. With this gradual change, and with the emergence of large stores and out of town shopping centers, a separation between civic and commercial contexts occurred.

In addition to such phenomena, changes in social habits of consumers, that are common to all the most advanced societies, emerged. One of the most relevant changes is the different role assigned to leisure. This favored, in terms of attractiveness, those centers that could offer entertainment facilities together with the shopping structures, as is typically the case of shopping centers containing - or having by side - various leisure activities and restaurants, such as gaming and bingo, bars and coffee shops, beauty services, and multiplex.

Such kind of retail/entertainment offer, that is usually well planned and coordinated, is not easily reproducible inside urban centers due to lack of structural conditions and constraints to accessibility. Moreover, for urban centers a centralized planning of a balanced mix of various economic activities is not possible.

In addition to "structural" issues, town centers suffer from "functional" problems related to the coordination of initiatives and policies to draw the final demand. The spontaneity that historically characterized the development of economic activities inside urban centers tends to be replaced by the planning (of facilities, activities and services) of business activities. This substitution is possible within areas that are specifically (and artificially) organized, where economic activities can be selected according

to criteria of variety and consistency and with respect to which promotional policies can be better adopted.

Facing this condition town centers need to respond with adequate tools in order to remove their deficiencies and claim a pivotal position, not only for trade activities but also for the social, civic and cultural life.

Thus, the localization problem arises in terms of need for coordination that can be pursued by the adoption of government models that could combine, on a territorial basis, the ability to create value for the individual subjects with that of the whole network/area where the subjects are inserted. However, if in the case of shopping malls the coordination is in prevalence at the economic level, for urban centers the economic perspective must be combined with that of town planning, culture and social relations. Undoubtedly coordination is more complex in the search of solutions aimed at reconciling different needs.

The rise of suburban commercial areas gives evidence of how spatial patterns of concentration go beyond the traditional one-dimensional axis center-periphery models, and evolve towards multi-dimensional, multi-center models (Pilotti, Zanderighi, 2003). This development is the result of the changing factors of attraction of trade areas, from the traditional ones (accessibility, mobility and those factors related to the satisfaction of buying needs of consumers) to new ones (social values, security, value of leisure, new forms of communication) less directly related to the purchase process.

The new commercial areas are advantaged by an "organizational surplus" (Pilotti, Zanderighi, 2003), which is also derived from the ability to search for coordinated solutions aimed at exploiting the latent potential of the subjects involved (Zaninotto, 1990).

To identify the guidelines for a revaluation of the town centers role through the coordination of urban government policies, we must take into account some of the above-mentioned changes. This relates, at first, to urbanistic choices and to the retail offer planning. Moreover, also decisions related the exploitation of the urban context (security, lighting, cleaning, etc.) should be involved, as well as cultural and entertainment initiatives, promotional and marketing actions. All this is part of the issues related to the Town Centre Management (TCM) and closely connected to the marketing of the territory (Alzubaidi, Vignali, Davies, Schmidt, 1997; Bromley, Thomas, 1995; Cloar, Stabler, De Vito; 1990; Evans, 1997; Kemp,

2000; Moulaert, Sekia, 2003; Tomalin, Pal, 1994; Warnaby, Alexander, Medway, 1998; Whysall, 1995).

The TCM is a theme rich in analyses and proposals, but actually few effective results can be observed in Italy.

The "return to the city" inevitably leads to reconsider the role of retailing and social activities when development policies for urban centers are adopted. Development projects need also to cover public spaces and transport networks, the creation of specialized professionals in the management of complex programs of commercial development and urban regeneration. This is what happens in almost all the most advanced European countries, starting from the nineties, most often with the support of EU funds.

All the context conditions that are difficult to reproduce in an artificial shopping mall, such as the pleasantness, the "naturalness" and the specificity (related to the local context) of places, and the ability to effectively integrate them into the social and economic tissue of the city center, can be factors of competitive advantage. This, however, requires a coordination of interventions and a wide overview of the requirements to be satisfied. Isolated and uncoordinated interventions are insufficient, as was the case for those regarding limitations on vehicular traffic in central areas without a coordinated parking and public transport system. This happened in most Italian experiences that caused a regression of businesses located in pedestrian zones, accompanied by a shift of customers to the suburban or out of town commercial areas.

Thus, the need is of a strategic level for decisions on all aspects of an urban center that can contribute to make it a "natural" shopping center. The intervention field is on the positioning of the retail and services offer through selection and guidance policies of the businesses involved. This can bring to consistency of strategic choices and coordination of initiatives, and also to a better integration with utility services and entertainment activities.

Looking at the example of what has been done in other European countries (Ashworth, Voogt, 1990; Bramezza, Van den Berg, Van der Meer, 1994; Aguiari, 1997; Camagni, Gibelli, 2001; Indicod, 2003), the models adopted highlight some key issues that seem to be particularly relevant, both because they emerge as efficiency factors, either because they can be used as references for the development of an Italian approach to the

development of urban centers, even with all the necessary adjustments and contextualization.

These issues focus on the need to build a shared long term vision on the role of the town/city center, also considered in its relationship with other parts of the settlement system. In relation to this vision is the need for integration of programs, policies and actions, through the institution of project management structures in which public and private subjects are involved. These issues need to be supported by training programs that will facilitate the development of skills in both public and private/professional sector, creating multidisciplinary profiles with management skills and negotiation capabilities, and with the ability to attract and integrate public and private financial resources.

To define how to implement a function of direction and coordination of development projects for urban centers, it is necessary to identify the organizational models that can perform three types of functions: a promotional function, a collective service provision function, and a knowledge marketing function (Pilotti, Zanderighi, 2003).

The *promotional function* is necessary to promote the mix of trade and service activities that operate in a specific area. External communication, promotional initiatives and entertainment for residents, tourists and others subjects, are part of this function. A centralized and coordinated management of this function allows the achievement of economies of scale to make attraction policies more effective.

The second function relates to the *provision of collective services* to the area (accessibility, street cleaning, security, urban decoration, lighting), which help to qualify the context in which commercial and social life take place. The quality of collective services contributes to influence the consumers' shopping experience and, more in general, their fruition of the urban center.

The models that can be adopted refer to a direct management of these services, or to a pressure for greater coordination in their provision by the various public and/or private subjects which are responsible for the provision of such services.

The third function is that of *knowledge of marketing* that is necessary to define the competitive positioning of the area. The intervention field is

about control on the location context, which results in both the ability to influence the characters of the tenant mix[1], and in the ability to achieve a coordinated management of common services.

The organization models through which a coordination action could be achieved should allow to carry all these types of functions. This requires that the interaction of the different actors can be ensured, through the analysis of how individual firms conduct their activities and, at the same time, how do they relate with other subjects in the area (professional, public administrators, institutional subjects, social actors). For this reason, the definition of proper organizational models is on two levels: on the one hand, there is the assignment process of tasks to be performed, on the other is the level of coordination, which can depend on the type of links among the subjects involved. Based on these two levels the following three organizational models can be identified (Pilotti, Zanderighi, 2003):

–   *centered model*, based on the presence of a dominant player that is in the condition to define the type of bonds. This condition can result from the ownership of real estate which allows the selection of business and leisure activities that can be present in an area. Moreover, the supply of common services can be centrally negotiated on a contractual basis. The dominant position may also result from the presence of a large retailer, that is able to prioritize the relationship with other firms in the area;

–   *non-centered associative model*, whereby the relationship between the coordinating subject and the individual firms is on a voluntary basis, without a formal agreement to carry out joint activities. Thus, activities are conducted by a continuous process of negotiation, based on the perception of a collective benefit that can be achieved through them;

–   *non-centered contractual model*, which unlike the previous is based on the creation of a management company, whose objectives are defined by the firms themselves in a precise mandate. The partner firms delegate the joint activities and are committed to cover all costs. The participation to the management company can be voluntary or, where legally possible,

---

[1] The tenant mix is a set of factors through which the commercial offer of a shopping center is expressed. It refers to the relations between the tenants defined by: the proportion of space and/or the number of sales units for each type of business and service, and the respective position (location in the center) (Horvath, 1998).

mandatory according to a territorial obligation related to the exercise of a business activity and/or real estate ownership.

The main difficulties of the organizational models mentioned above are mainly of two kinds: the distrust of small retailers in front of associations or consortia that reduce, even partially, their autonomy, and the difficulty of the local authorities and institutions to play a role of coordinator and stimulator of initiatives to revitalize the urban centers according to the needs of both businesses and citizens.

In particular, the non-centered associative model is the one that meets the greatest obstacles, as its activity is the result of the joint contribution of several subjects and the output attributable to each is difficult to define. As a consequence, no one has sufficient interest to afford the costs of each activity or project.

About this, it must be considered that there is recurring conflict between local governments and retailers, due to an experience of relationships in which the local administrators are mainly seen for the role of taxation and for measures perceived as contrary to the interests of operators, such as those related to traffic limitations and parking payments. On the other side, it must be considered that lack of economic management culture among local administrators is rather widespread in Italy.

However, both the terms of attractiveness of a urban center (usability, width and variety of retail/entertainment offer, coordination of local government policies) and the tools to exploit them can vary considerably depending on the urban center size (Table 1). In some cases there is a positive relationship: for example, the attractiveness of retail and entertainment offer increases as the urban dimension increases. In other cases the relationship is not linear. For example, attractiveness can decrease as a consequence of the extension of the pedestrian areas (see table 1).

Medium-sized cities are often in a position to aggregate limits and difficulties of the big cities and small towns: they have parking and traffic problems, the public transport system is more difficult to organize due to the limited economies of scale and, at the same time, the retail and entertainment offer is not sufficient to perform an adequate appeal.

However, it should be recognized that the coordination function is particularly complex because of the broad spectrum of implications arising from the management of a number of factors. For most cities, the objective remains the convergence of various interests by a coordination whose

effects could be clearly perceived by the potential users. The possible success depends on the perceived characters and identity of each urban area. Less strong is the identity of the area and the greater the risk of disruption and delay.

5. A case study: the Italian province of Pesaro and Urbino

The case of an Italian province was analyzed with the objective to underline the main factors that need to be considered in planning a TCM in which also peripheral territories could be involved. In the study a particular importance was attributed to the balance between urban areas and inland areas, with the latter in Italy, compared as to other European countries, more populated both with resident people and manufacturing activities. Thus, it was necessary to focus on a wider perspective of analysis that could allow to consider the less polarized structure of resident people and economic activities location.

The Pesaro e Urbino province, a second level administrative body covering 60 municipalities, with a total of 363,529 residents, is in the east coast of central Italy. It is representative of the greater part of Italian territory: prevalence of hills and mountains, spread population and businesses, strong tourism attractiveness of coastal towns and inland historical heritage. In this province, as in the majority of Italy, retail structure is characterized by a conflict between the emerging formats of modern retailing (hypermarkets, supermarkets, etc.) and out-of-town retail locations, on one side, and small independent retailing with town centre location on the other side.

The analysis was developed through a critical study of the main projects and activities that the municipalities of Pesaro e Urbino province conducted to regenerate physically and commercially town centers and rural areas. In-depth interview with local administrators and retail trade associations were conducted to examine criticisms and key factors of the projects and to point out the main problems of retailing both in urban areas and rural territories. A main objective of the interviews was to understand how the economic performance of the territory (cities, towns, inland) area could be strengthened and how access to employment and wealth creation opportunities can be improved for residents. With the interviews we also tried to understand how much local actors are really available to cooperate

and which could be the priority fields of action for a coordinated territory management, such as: town planning, accessibility and quality of shopping areas, range and quality of the retail and leisure offer, safety and security, functionality of transport networks, car parking services and public transport.

Results have been compared to those of relevant experiences in Italy (Comune di Cremona, 2000; Arena, 2000; Zappi, 2005; Preite, 2005) and Europe (Aguiari, 1997; Ashworth, Voogt, 1990; Bramezza, Van den Berg, Van der Meer, 1994; Camagni, Gibelli, 2001; Indicod, 2003).

The province of Pesaro and Urbino is characterized by a degree of modernization of retailing similar to that at national level, although with slightly higher density of modern formats in the food sector and, conversely, slightly lower density in non-food (Table 2). In particular, within food retailing there are 1.47 modern outlets per 10,000 inhabitants (compared to 1.41 at a national level). Considering total surface of modern formats, the average density is slightly lower than the national (1,426 square meters per 10,000 inhabitants in Pesaro and Urbino, and 1,565 square meters at the national level). This is largely due to a lower weight of supermarkets (972 sq m per inhabitants against 1,146 nationally), while the total surface of hypermarkets is lightly above the national average (455 against 419 sq m).

Thus, as for the food sector, a high density of both supermarkets and hypermarkets emerges, with the first undersized compared to the national average size. The retail offer of modern formats is more fragmented and this is consistent with the widespread distribution of the inhabitants. Such distribution has led to supermarkets sizes that are more suitable to local markets.

In the non-food sector the degree of modernization is significantly lower, especially as regards the impact of total modern sales space, whose weight on resident population is almost one third lower than the national average. Even in this case the smaller structure of outlets is confirmed.

In this analysis it has also to be considered that the neighboring coastal provinces, namely Rimini and Ancona, are characterized by the presence of even more large structures (hypermarkets, supermarkets, hard discounts and large specialized outlets) easily connected by the coastal road system. Both provinces, particularly Ancona, are among the Italian provinces with the highest levels of modernization of retailing in Italy, in

some cases higher than that in France that is the nation in Europe with the more advanced distribution system.

In particular, it is in those formats with a wider area of attraction, namely hypermarkets, that the modernization index is higher (Table 2): in the province of Ancona, there are 0.22 hypermarkets per 10,000 inhabitants, while 0.08 are in the province of Pesaro and 0.10 in the province of Rimini. In France, hypermarkets average density is 0.20 per 10,000 inhabitants, less than that of Ancona (see table 2).

The coastal development of modern retailing, favored by the conformation of the territory and the presence of the main road and highway connections, contributed to draw customers from inland. This reduced the market potential of all retailers located in hinterland territories and small towns. In some areas a risk of desertification of the retail offer emerged.

A comparison with the demographic trends in a ten years period (1997-2007)[1] points out some correlation with changes in the number of retail firms:

- 30 of the 58 municipalities inside the province registered a loss of trade activities and, at the same time, also a loss of population;
- the municipalities where the drop in the number of retail businesses was most significant are those (all inland) with a parallel decrease in the number of residents;
- only 3 of the municipalities with a loss of resident population did not register a loss of retail firms.

However, the reduction in the number of retail firms has been heavier than the decline in population, and this seems to indicate a weak cause-effect relationship. No influence emerged depending on the shape of the territory (flat, hilly, mountainous). Indeed, the reduction of retail firms was similar in the different types of territory.

In general terms, the selection process has been more severe for smaller retailers. Among them, those highly specialized firms in the non-food sector seem to have particularly suffered. This typology is the most vulnerable to the presence of large specialized stores, that in most cases are located in suburban retail parks. They can better attract non-recurring

---

[1] Source: Istat (Italian Institute of Statistics) and Chamber of Commerce of the Province of Pesaro and Urbino.

purchasing customers' requirements offering wide variety of assortments within a unique shop expedition.

The competitive position of small neighborhood food shops emerges as more solid, whose complementarity to modern distribution can be better expressed in the most peripheral territories. Their role is to satisfy recurring buying requirements related to goods whose purchases are less easily programmable. The high incidence of people living in small inland towns[1] facilitates the survival of these retail types.

The specificity of the provincial territory, even if particularly complex, can be synthesized into three distinct contexts:

a) the main cities, where the major out of town retail structures are located. In the area, and particularly inside the city centers, the contrast between planned and natural shopping centers is more marked. The main difficulties for city centers are related to real estate costs and accessibility (traffic and parking);

b) hilly and/or industrial development areas where retail distribution structures are less distressed, benefiting from a growing resident population and, at the same time, with the ability to draw consumers from the most peripheral areas. Small retailing can be successfully complementary (in terms of outlet size and assortments) to large modern retailing in the coastal area;

c) peripheral hinterland areas in which the reduction of the retail offer is strong but population is more stable. The presence of a scattered population in many small towns and villages can favor the survival of neighborhood shops. On the other hand, the increased mobility of population facilitates the flows to the major shopping centers located close to the main cities. This could accelerate a process of thinking of the retail offer.

The issues in which these contexts are involved tend to be self-crossing, so that the assessment of the intervention fields requires an overall view and cannot be limited to single action on a single issue. Actually there are not cases, in Italy or abroad, of such an approach. In the analyzed province the experiences of various municipalities were all

---

[1] 351,214 inhabitants live in the province of Pesaro and Urbino. Among them, 113,781 live in the two main cities (Pesaro and Fano), and the remaining are spread over more than 700 small towns, 80% of which have less than 200 inhabitants.

characterized by isolated interventions, and a real TCM approach was not followed. The most frequent intervention areas were the following:
  − restructuring plans for individual shopping areas or urban main streets;
  − urban decoration and public gardens projects;
  − limitation of road traffic (pedestrian areas) and, in few cases, organization of transport services to parking areas;
  − cultural initiatives;
  − entertainment initiatives on holidays (Christmas)
  − extension of opening hours of public offices in the afternoon;
  − extension of opening hours of shops in late evening and holidays;
  − urban logistics projects;
  − training programs for retail entrepreneurs;
  − provision of loans for restructuring/qualification of retail businesses inside town center;
  − promotion and communication, information technology development, customer care services, establishment of an area trade mark.

In almost all cases each intervention has been conducted independently by others, with very few cases where a project has been coordinated at the municipality level. Moreover, all efforts have been directed to the city and urban centers, and in no case have been taken to enhance the inland areas.

6. Conclusions: from Town Center Management to Extended Town Center Management

A main evidence of the study was the need of coordination among municipalities for managing retailing related issues. The single municipality level of planning is not sufficient, as new formats of modern retailing (such as out of towns shopping centers) are drawing a wide basin of consumers.

Moreover, the case analyzed showed the existence of a problem for rural and mountainous areas, that is related to an increasing desertification of the retail offer: as small independent retailers are stopping their business, local communities start to lose a series of essential services and

employment opportunities. An increasing risk of population reduction emerges.

Thus, two different but related matters need to be considered. The first one refers to town centers. TCM methodologies are often designed on a medium/large city base. This means that a large city can deal with high investments (in promotional activities, transport systems, etc.) and complex coordinating structures. In case of smaller cities and rural towns a different mix of intervention tools must be found, with respect to the lack of financial and organizational resources.

The second matter refers to rural and mountainous areas, with small towns that are gradually losing their role of social and economic landmark. Small independent retailing significantly contributed to this role in the past. Actually, with the emerging of modern retailing and regional shopping centre attractiveness, a complementary positioning for inland small retailing is necessary.

In addition to the adoption of a TCM, in order to support inland retail businesses, two main intervention fields could be characterized. The first is retail co-operation as a typical way to increase competitiveness of smaller firms in buying activities, sales spaces optimization and store promotion. Local administrators can stimulate a wider diffusion of co-operatives among retailers and can also stimulate actual voluntary chains to introduce specific formats and assortments focused on the needs of rural/mountainous areas.

The second field refers to the development of retail formats that can meet the needs of local peripheral communities and, at the same time, can give to retail businesses the possibility to maintain a minimum level of turnover to survive. Such formats should emphasize a multifunctional character, with a mix of products and services (print and copy, post office, internet, café, etc). The use of technology, particularly vending and automatic telling machines (ATM), can ensure extended operating hours and days. This concept recalls the convenience store concept, adapted to be suitable to peripheral inland areas.

Both in the case of town centers and rural/mountainous areas, a key role of a coordinating administrative body emerges over the single municipality duty and an extended area planning approach is required.

References

1. Aguiari, R., 1997, *Le strutture commerciali come componenti dell'arredo urbano: i centri commerciali, le associazioni di via, l'ambulantato*, in Baccarani, C. (ed.), Imprese commerciali e sistema distributivo. Una visione economico-manageriale (Giappichelli, Torino).

2. Alzubaidi, H., C. Vignali, B.F. Davies and R.A. Schmidt, 1997, *Town centre versus out-of town shopping: a consumer perspective*, International Journal of Retail & Distribution Management, 25, 2.

3. Arena, A., 2000, *Marketing, Urbano. Metodologie e tecniche operative*, Eurostrategie, Perugina.

4. Ashworth, G.J. and H. Voogt, 1990, *Selling the City: Marketing Approaches in Public Sector Urban Planning*, Belhaven Press, London.

5. Bramezza, I., L. Van den Berg and J. Van der Meer, 1994, *Gestione e marketing della città: l'esperienza olandese*, Impresa e Stato, 27.

6. Bromley, R.D.F. and C.J. Thomas, 1995, *Small town shopping decline: dependence and inconvenience for the disadvantaged*, The International Review of Retail, Distribution and Consumer Research, 5, 4.

7. Camagni, R. and M.C. Gibelli, 2001, *L'area metropolitana di Lille: rivitalizzazione, grandi progetti, marketing urbano*, Sviluppo & Organizzazione.

8. Cloar, J., E. Stabler and A. De Vito, 1990, *Centralised Retail Management: New Strategies for Downtown*, Urban Land Institute, Washington.

9. Davies, G. and K. Harris, 1990, *Small Business: The Independent Retailer*, Macmillan, Houndmills.

10. Dawson, J.A. and D.A. Kirby, 1979, *Small Scale Retailing in the United Kingdom*, Saxon House, Farnborough.

11. Evans, R., 1997, *Regenerating Town Centres*, Manchester University Press, Manchester.

12. Horvàth, E., 1998, *Piccole imprese commerciali ed innovazione: l'appartenenza ad un centro commerciale come possibile strumento di crescita qualitativa*, Sinergie.

13. Howe, W.S. (ed.), 1992, *Retailing Management*, Macmillan, London.

14. Indicod, 2003, *Valorizzare il centro urbano. Tra indirizzi strategici e modelli gestionali*, in Proceedings of the Indicod Conference, Milan, 11 June.

15. Kemp, R.L. (ed.), 2000, *Main Street Renewal*, McFarland, Jefferson.

16. Moulaert, F. and F. Sekia, 2003, *Territorial Innovation Models: A Critical Survey*, Regional Studies, 37, 3.

17. **Musso, F**., 1997, *The Changing Role of Trade Co-operation in Regional Economies: A Case Study*, in Proceedings of the 37th European Regional Science Association Congress, Roma.

18. **Musso, F.,** 2005, L'impresa commerciale minore in Italia, Cedam, Padova.

19. **Musso, F**., 2007, *Centri storici, aree rurali e distribuzione al dettaglio. Il ruolo del commercio minore per la valorizzazione del tessuto socio-economico urbano e periferico*, in Proceedings of the Annual Conference of Italian Marketing Society, Rome, 5-6 October.

20. **Pilotti L. and L. Zanderighi**, 2003, *Polarizzazione commerciale, nodi ecologici del valore e modalità di governance della rete*, in Proceedings of the Review Industria & Distribuzione Annual Conference, Rome, 21-22 November.

21. **Preite, M**., 2005, *La riqualificazione e il rilancio del commercio al dettaglio nelle aree di montagna*, in Adorati, F., A. Oliveti and L. Tamini (eds), Commercio e politiche territoriali: 4 temi emergenti, Bergamo University Press, Bergamo.

22. **Smith, A. and L. Sparks**, 2000, *The role and function of the independent small shop: the situation in Scotland*, The International Review of Retail, Distribution and Consumer Research, 10, 2.

23. **Tomalin, C. and J. Pal**, 1994, *Local Authority Reponses to Retail Change: The case for Town Centre Management*, International Journal of Retail & Distribution Management, 22.

24. **Warnaby, G., A. Alexander and D. Medway**, 1998, *Town centre management in the UK: A review, synthesis and research agenda*, The International Review of Retail, Distribution and Consumer Research, 8, 1.

25. **Whysall, P**., 1995, *Regenerating inner-city shopping centres: the British experience*, Journal of Retailing and Consumer Services, 2.

26. **Zanderighi, L**., 1990, *Piccole e medie imprese e sviluppo commerciale,* Egea, Milano.

27. **Zaninotto, E**., 1990, *La gestione collaborativa della funzione distributive,* Egea, Milano.

28. **Zappi, O**., 2005, *Centri storici e commercio: il caso di Imola*, in Urbanistica commerciale - Infocommercio Report.

Table 1: Factors of influence on the attractiveness of urban centers in relation to their size

	Large cities	Medium-small cities	Small towns and villages
Conditions of access: availability of parking areas	Low	Low, usually lower in larger cities	Medium-high
Conditions of access: closeness of parking areas to shopping area	Lowest	Medium-low	Highest
Conditions of access: public transport system	Best condition	Insufficient	Not necessary
Conditions of usability	Risk of dispersive usability	Best condition	Limited by the small dimension of the center and the low number of shops
Width and variety of retail/entertainment offer	Highest	Medium-high	Insufficient
Coordination of local government policies	Possible but easier by separate districts	Difficult	Facilitated by the low number of firms involved
Scale economies for promotion and provision of collective services	High	Medium/Low	Low/Nonexistent

Table 2: Index of modernization of retail formats in the Province of Pesaro/Urbino, Ancona and Rimini. Comparison with total Italy and France (2007)

	Mq per 10,000 inh.				
	Pesaro and Urbino	Ancona	Rimini	Italy	France
Food	1,426	2,407	2,007	1,565	2,601
among which hypermarkets	455	933	824	419	1,167
among which supermarkets and hard discounts	972	1,475	1,183	1,146	1,434
Non food	585	1,657	1,181	856	535
among which large specialized outlets	413	1,130	771		
	Number outlets per 10,000 inh.				
	Pesaro and Urbino	Ancona	Rimini	Italy	France
Food	1.47	2.04	1.71	1.41	1.64
among which hypermarkets	0.08	0.22	0.10	0.07	0.20
among which supermarkets and hard discounts	1.40	1.82	1.60	1.34	1.44
Non food	0.36	0.89	0.42	0.38	1.70
among which large specialized outlets	0.16	0.35	0.28	0.19	

Source: our elaboration from Italian Ministry of Industry.

GLOBALISATION UNDER DYNAMIC ECONOMIC MODELS

1. General approach;
2. Global Economic Model 2004;
3. Global Economic Model 2007;
4. Global Economic Model 2008;
5. Conclusions.

Ph.D. Professor Romeo Ionescu
Dunarea de Jos University, Romania[1]

Abstract
The paper deals with the necessity to find a better way to forecast the evolution of the global economic environment under the present crisis. As a result, the paper realises a comparative analysis of the latest GEM models.

According to other dynamic, stochastic and general equilibrium models, GEM models combine the long term characteristics of the business cycles models with the short term Keynesian models.

Keywords: *international conjuncture, business cycle approach, macroeconomic connections, regional blocks.*

JEL Classification: C54, C59.

1. According to the globalisation growth process, the decision factors, the international organisations, the multinational companies and the individual specialists asked for the necessity to create global dynamic

---

[1] Ionescu Romeo, Aurel Vlaicu Street no.10, 800508 Galatz, Romania, Dunarea de Jos University, Galatz, Romania, phone 0040336130165, fax 0040236493370, ionescu_v_romeo@yahoo.com, Senior vice president of the Romanian Regional Science Association (A.R.S.R); Founder member of Romanian General Association of the Economists (AGER); Laureate of the Romanian Government Ordain for Teaching Activity as Knight; Member of Research Board of Advisors, American Biographical Institute, U.S.A.; Member of European Regional Science Association; Member of European Regional Science International; Multiplication of European information under European Commission in Romania; Member of International Advisory Board for Romanian Journal of Regional Science, listed in DOAJ database.

models able to quantify and forecast the world socio-economic evolution.

The global models evolved as quality and number of quantified restrictions. Moreover, the global models' restrictions have to quantify the international conjuncture, in order to be able to express the economic evolution under the present crisis, for example.

The global economic models (GEM) can be analysed in terms of quality using al least three steps.

The first of them is GEM 2004.[1] This model gave a nontechnical approach of the development, using microeconomic connections which were developed inside the Research Department of IMF. Gem 2004 has a predecessor in MULTIMOD model, which was focused on the analysis of the connections between the world countries.

GEM 2004 was based on the connection between the academic research and the existing economic models (see figure 1).

According to figure 1, the academic research develops a new theoretic impulse with powerful connections with the economic models, as a response to the political challenges and to the limits of the existing mathematical models.

When the new models are able to process the existing data, they become bases for the existing political models development, starting from one country version and continuing with multistate models.

The academic and political communities filter the new specific ideas, and their paradigms become dominant.

At a moment, new phenomenons from the real economy operate and are implemented new dominant paradigms.

The evolution of the macroeconomic models can be structured on the following steps:

- the Keynesian adaptive expectations approach (adaptive expectations): this approach allows the researchers to evaluate the economic policies impact and cyclical shocks under a unified manner. The main lacuna of this approach is that it allows politicians to misguide public opinion, creating a bias connected to

---

[1] **Bayoumi Tamim and al.**, *GEM- A New International Macroeconomic Model,* International Monetary Fund, Washington DC, 2004.

the expansionist macroeconomic policies. This approach was covered by Flemming[1] and Mundell[2] growth models;

- the Keynesian rational expectations approach (rational expectations): allows the generation of a more realistic answer to the economic cyclical dysfunctions. On the other hand, this approach is not too powerful theoretically based, and create difficulties connected to the analysis of economic policies effects on the aggregate supply. The most significant model from this category is MULTIMOD;[3]

- real business cycle approach: has a powerful theoretical base which improves the supply approach and allows the direct quantification of the economic welfare. The price flexibility premise confines the analysis area of the macroeconomic policies. Such a model is that of Mendoza;[4]

- general stochastic dynamic equilibrium approach: integrates the aggregate supply and demand answers using the microeconomic theory. These models are new and present difficulties connected to their building and implementation. GEM models are representative for this category.

2. Global Economic Model 2004 (GEM) operates with firms which produce goods, households which consume and supply labour and capital to the enterprises and a governmental sector, which collects taxes and realise specific expenditures.

The microeconomic structure of GEM 2004 uses standard functional approaches, which allow enterprises and consumers to be aggregated as a single entity.

---

[1] **Fleming, J. Marcus**, *Domestic Financial Policies under Fixed and under Floating Exchange Rates*, Staff Papers, International Monetary Fund, Washington, November 1962, pp. 369-379.

[2] **Mundell, Robert A.,** *Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates*, Canadian Journal of Economics and Political Science 29, November 1963, pp. 475-485.

[3] **IMF**, *MULTIMOD Mark III, The Core Dynamic and Steady-State Models*, IMF Occasional Paper No. 164, 1998.

[4] **Mendoza Enrique G.,** *Endogenous sudden stops in a business cycle model with collateral constraints: a Fisherian deflation of Tobin's Q,* NBER Working Paper Series, Working Paper 12564, 2006.

In terms of output, the small enterprises, which produce different goods, operate under the same substitution elasticity. As a result, GEM 2004 uses simple CES production functions, which quantify labour and capital.

The goods are differentiated and the enterprises have the power on the market and are able to restrict the output, in order to obtain supplementary profits.

The intermediary goods and the capital are produced and can be sold, and the labour from every country is assumed to be fixed. It is the labour element that makes the choice for the rates of work, entertainment or rest.

Labour obtains revenues and buys domestic or foreign goods. This process is described using a CES function.

The model is focused on trade and macroeconomic connections. As a result, its fiscal and financial components are almost simple.

The limit of the forecast is 25 years, divided into 100 quarters. GEM 2004 started on the idea that the competition will grow across the EU and USA. This process has to bring benefits for the world economy, especially for the EU (see table 1).

Using the information from table 1, they can point out some specific trends during 2004-2029. The Euro area real GDP will grow by 12.4%, as a result of the capital stock (+20%) and working hours (8%) growth. Almost 2/3 of these benefits come from goods market reformation and more than 1/3 from labour market reformation. The GDP forecast evolution is presented in figure 2.

The consumption growth represents 2/3 of the real GDP growth in the Euro area and reflects the investment growth and the Euro depreciation (see figure 3).

The growth of the consumers' revenues in the Euro area will support the growth of the imports from the rest of the world. The foreign consumption will grow by 1.25%, which represents 1/6 of the same indicator growth in the Euro area.

The economic welfare will growth by 2.5% in the Euro area and 1.25% in the rest of the world, according to the consumption.

On the other hand, the revenues and the prices become more flexible and support the Central European Bank's monetary intervention, in order to achieve a cyclical stabilisation of the economy.

The growth of the national output doesn't vary, even if the control parameters change (excepting the labour market changes, which depend on the connection between the number of working hours and the real wage evolution).

The effects associated with the control parameters are lower in the rest of the world, especially when the analysis is focused on the domestic goods substitution for those from import.

The economic reforms are able to support the fast growth of investment, but the consumers' benefits will come latter (see figure 4).

3. Global Economic Model 2007 was implemented by the National Bank of Canada specialists. They extended the standard GEM model by adding under analysis the traded and unsold goods sectors, which cover petroleum products and non-oil products.[1]

Moreover, the petroleum sector was decomposed in petroleum products for production and petroleum products for consumer retail.

GEM 2007 is a multiregional model which covers the global economy and which allows the analysis of the bilateral trade fluxes and relative prices (including the exchange rates) for every region.

The model divides the world economy into five regional blocks: Canada (CA), USA (US), Asian emergent economies (AS), goods exporter countries (CX) and the rest of the world countries (RC), as in table 2.

Every one of these five regional blocks is composed of:

- enterprises sector (monopolistic type), which produces rare materials, intermediate and final goods;
- two categories of households (in order to delineate their limited liquidity holdings by the consumers' comings), which consume final goods and which represent the labour supply for the enterprises;
- government, which consists of a fiscal authority (which consumes goods and services financed from taxes and loans) and a monetary authority (which influences the short term interest rates, using monetary policy).

Under GEM 2007, the enterprises cover the goods supply for

---

[1] **Lalonde René, Muir Dirk,** *The Bank of Canada's Version of the Global Economy Model (BoC-GEM),* Ottawa, 2007.

domestic and foreign consumers and their necessary labour from the analysed country. The enterprises need intermediate goods, which can be bought from domestic and foreign producers.

On the other hand, the consumers shape their demand for the domestic and foreign enterprises goods and ensure the labour for the national enterprises.

Under its nonlinear form, GEM 2007 can be used as a system characterised by demand, supply and prices functions which uses the CES constant substitution elasticity.

The practical use of GEM 2007 is based on the following premises:

- in the regions where the rest of the world impact is present, the regional indexes are explicitly incorporated into notations, where H represents the domestic region and R the representative region for the rest of the world;
- the productivity trend (TREND) is the same for the world economy. Its annual growth rate during the time period t ➤ τ is $g_{t,\tau}$. All quantitative variables from the model are expressed in terms of TREND. But the productivity growth represents only a component of the economic growth. Another component is the population growth, but the model assumed that this growth is zero during the forecast period. Moreover, all prices are considered as relative;
- the variables which are not explicitly indexed are expressed as average terms on capital;
- the forecast periods are the quarters, and the variables have annual values.

GEM 2007 is implemented on the following modules:

Enterprise:

In every region, every enterprise is indexed from $s \in [0, ss]$, where *ss* represents the region size in the world $(0\langle ss\langle 1)$.

Enterprise *s* produces S_t(s) during t period, using capital K(s), labour L(s) and a fixed factor which is not a consistent resource LAND(s). These elements are quantified under a CES function:

$$S_t(s)^{1-\frac{1}{\xi_s}} = Z_{S,t} \left[\alpha_{LAND_{S,t}}^{\frac{1}{\xi_s}} \left(Z_{LAND_{S,t}} LAND_t(s) \right)^{1-\frac{1}{\xi_s}} + \left(1 - \alpha_{K_{S,t}} - \alpha_{LAND_{S,t}}\right)^{\frac{1}{\xi_s}} \left(Z_{L_{S,t}} l_t(s) \left(1 - \Gamma_{L_{S,t}}\right) \right)^{1-\frac{1}{\xi_s}} + \alpha_{K_{S,t}}^{\frac{1}{\xi_s}} \left(Z_{K_{S,t}} K_t(s) \left(1 - \Gamma_{K_{S,t}}\right) \right)^{1-\frac{1}{\xi_s}} \right]$$

where: Z_s - common shock connected to the productivity of the enterprises which produce goods;

Z_{LS}, Z_{KS}, $Z_{LAND\ S}$ - productivity shocks connected to labour (L), capital (K) and land (LAND);

Γ_{KS}, Γ_{LS} − costs real change as a result of the capital and labour change.

Households:

In every region, the house holds are indexed by the indicator $j \in [0, ss]$, the same as that connected to the labour inputs.

Some households can access the capital markets. Those which have no access to the capital markets finance their goods consumption exclusively from their wages.

The utility function for the households is:

$$u(C,l) = U(C) - V(l).$$

But the labour growth rate is not the same with the productivity growth rate. As a result, the households' utility function has to be multiplied as:

$$U(C,l) = U(C) * (-V(l)) \text{ or}$$
$$U(C,l) = U(C - V(zl)),$$

where: z – productivity level (z = TREND), which is directly included in the utility function.

Government:

The government has a double role under GEM 2007. It is a fiscal agent, which collects and distributes the revenues from taxes. Second, it is a monetary authority, which ensures a specific stability for the national economy.

- as fiscal agent: the public expenditures have three destinations: the government consumption (G_C), the governmental investment (G_I) and the public acquisitions of nontrade intermediary goods (G_N).

    The governmental consumption can be assumed to represent the goods acquisitions, the governmental investment are focused only on the fixed capital and G_N quantifies the wages and services expenditures.

    GEM 2007 covers seven sources of net revenues from taxes: taxes on the capital revenues (τ_K), taxes on labour revenues (τ_L),

flat taxes and households net transfers (TT), tariffs on the imports from R region to H region (τ_{TRF}), revenues from the crude oil extraction (τ_{ROYAL}), a tax on the oils value used in goods production (τ_{OIL}) and a tax on the gas value (τ_{GAS}).

The government finances the public expenditures excess (more than the net revenues from taxes) using the claims emission in nominal currency (B) per capita.

The government budgetary contraction is described by the equation:

$$B_t \geq \left(1 + i_{t-1}\right)\frac{B_{t-1}}{\pi_{t-1,t}\, g_{t-1,t}} + G_t - G_{REV,t},$$

where: $G_t = G_{C,t} + \rho_{E,t} G_{I,t} + \rho_{N,t} G_{n,t}$

▪ as monetary authority: the government establishes a target for its monetary policy and uses the short term nominal interest rate control as instrument (i_t).

GEM 2007 implements the monetary policy according to a forecasted inflation rate. As a result, the nominal interest rate is calculated according to the average lag (i_{t-1}) and the neutral current interest rate (i_t^{neut}).

The neutral current interest rate represents the interest rate at which the focused variables are stabilised. This means that the real interest rate is a constant which is reported to the economic growth rate and the preferences rate, as in the next equation:

$$\left(1+i_t\right)^4 = \left(1+i_{t-1}\right)^{4\varpi_i}\left(1+i_t^{neut}\right)^{4(1-\varpi_i)} E_t\left(\pi_{t-1,t+3}^X - \Pi_{t-1,t+3}\right)^{\omega_1}\left(GDP_t / GDP_{POT,t}\right)^{\omega_2}$$

GEM 2007 simulation used the key parameters presented in table 3. As a result of the simulation, the economic evolution of the regional blocks was different (see figures 5-8).

The greatest quarter economic growth rates will be achieved by the Asian emergent economies.

4. The latest GEM model is the Global Economic Model 2008. It was realised in the USA.[1] According to this model the world economy is analysed on the following sectors:

- households: which consume final goods and supply labour (l) to all domestic enterprises. Some households have not access on the capital markets and they finance their consumption only from their work revenues. Other households benefit of the domestic firms portfolio and the domestic capital stock (K) on which they rent to these firms. Moreover, they buy and sell two kinds of securities: domestic (in national currency) and international.

  When the households buy and sell international stocks, they pay a bonus (charge) to the financial intermediary, according to the situation of the national total net actives.

  The labour and the capital are assumed to be immobile on the international market. The capital market is a competitive one and the capital accumulation is influenced by the costs adjustment.

  The wages contracts are relatively rigid on the labour market;

- enterprises: produce final goods and supply intermediary services. There are two kinds of final goods: consumption goods (A) and investment goods (E), which are produced by the enterprises on a perfect market.

  The consumption goods are bought by the households or the government (G_C). The demand for the investment goods is supported by private agents (I) and public sector (G_I).

  The final goods are made using all disposable intermediary goods inputs. There is a great diversity of intermediary goods. Every intermediary good is produced by a single enterprise, which operates on a monopolistic market. The intermediary goods are produced using domestic labour and capital. The intermediary goods can be non-tradable (N) and tradable (T) on the international market.

  The non-tradable intermediary goods can be buyed by the government (G_N) or can be used to produce final goods (N_N).

  The tradable intermediary goods used by the domestic

---

[1] **Pesenti Paolo,** *The Global Economy Model (GEM),* Federal Reserve Bank of New York, NBER and CEPR, 2008.

enterprises are noted as Q, and the imports as M;
- government: buys two types of domestic final goods and non-tradable services. Under treasure, the government finances its expenditures using the net taxes on the domestic private sector. The government is able to manipulate the short term nominal interest rate by the support of the national bank.

The monetary policy is analysed as the government credible commitment to guaranty   the prices stability, using the manipulation of the short term nominal interest rate.

The world economy is assumed to be formed of N regional blocks. The world economy dimension is normalised at 1. The dimension of every country H is noted as $_{sH}$, where $0\langle sh \langle 1$ and $\sum_{H} s^H = 1$ for $H \in N$.

The world economy trend is the variable TREND. The global gross economic growth rate during t-τ time period is $g_{t,\tau}$. It is calculated as:

$$g_{t,\tau} = \frac{TREND_\tau}{TREND_t}$$

All the quantitative variables from every country are estimated according to TREND. The only exception is the labour contribution l, quantified as endowment. On long term, $g_{t,t+1}$ converses to g_{ss}, and $g_{t,}\tau$ converses to $g_{ss}^{\tau-t}$, where g_{ss} is a constant.

The nominal prices in national currency are noted as variables capital, and the relative prices are noted as sensitive variables.

In every country, the relative prices are quantified according to the domestic consumption, using the consumption prices index (CPI). This presumption doesn't affect the generality degree of the model.

During t-τ, the inflation rate is noted as $\pi_{t,\tau}$ and is calculated as:

$$\pi = \frac{P_{A,\tau}}{P_{A,t}} .$$

5. GEM models were created using the latest researches from the international finance and monetary economics.

These models are based on the New Open Economy theory,

implemented by Obstfeld and Rogoff.[1,2,3]

Nowadays, GEM represents an inter-temporary approach which is able to analyse the fundamental problems of the international economic policy and the structural shocks effects, using the connections between different countries and regional blocks.

According to other dynamic, stochastic and general equilibrium models, GEM models combine the long term characteristics of the business cycles models with the short term Keynesian models.

Moreover, GEM models realise a microeconomic construction which allows an integrated analysis of the positive elements and those connected to the economic welfare.

A more useful way to implement GEM models is to familiarise with their characteristics and notes using graphs.

References

1. **Bayoumi Tamim and al.**, *GEM- A New International Macroeconomic Model,* International Monetary Fund, Washington DC, 2004.
2. **Bayoumi T., Laxton D. and Pesenti P.,** *Benefits and Spillovers of Greater Competition in Europe: A Macroeconomic Assessment,* ECB Working Paper no.341, Frankfurt, 2004.
3. **Fleming, J. Marcus**, *Domestic Financial Policies under Fixed and under Floating Exchange Rates*, Staff Papers, International Monetary Fund, Washington, November 1962.
4. **Frisch Ragnar, A complete scheme for computing all direct and cross demand elasticises in a model with many sectors,** *Econometrica 27, 1959.*
5. **IMF**, *MULTIMOD Mark III, The Core Dynamic and Steady-State Models*, IMF Occasional Paper No. 164, 1998.
6. **Lalonde René, Muir Dirk,** *The Bank of Canada's Version of the Global Economy Model (BoC-GEM),* Ottawa, 2007.

---

[1] **Obstfeld M., Rogoff K.,** *Exchange Rate Dynamics Redux*, Journal of Political Economy 103, 1995, pp. 624-660.

[2] **Obstfeld M., Rogoff K.,** *New Directions for Stochastic Open Economy Models*, Journal of International Economics 50 (1), 2000, pp. 117-153.

[3] **Obstfeld M., Rogoff K.,** *Global Implications of Self-Oriented National Monetary Rules,* Quarterly Journal of Economics 117, 2002, pp. 503-36.

7. **Mendoza Enrique G.,** *Endogenous sudden stops in a business cycle model with collateral constraints: a Fisherian deflation of Tobin's Q,* NBER Working Paper Series, Working Paper 12564, 2006.
8. **Mundell, Robert A.,** *Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates*, Canadian Journal of Economics and Political Science 29, November 1963.
9. **Obstfeld M., Rogoff K.,** *Exchange Rate Dynamics Redux*, Journal of Political Economy 103, 1995.
10. **Obstfeld M., Rogoff K.,** *New Directions for Stochastic Open Economy Models*, Journal of International Economics 50 (1), 2000.
11. **Obstfeld M., Rogoff K.,** *Global Implications of Self-Oriented National Monetary Rules,* Quarterly Journal of Economics 117, 2002.
12. **Pesenti Paolo,** *The Global Economy Model (GEM),* Federal Reserve Bank of New York, NBER and CEPR, 2008.
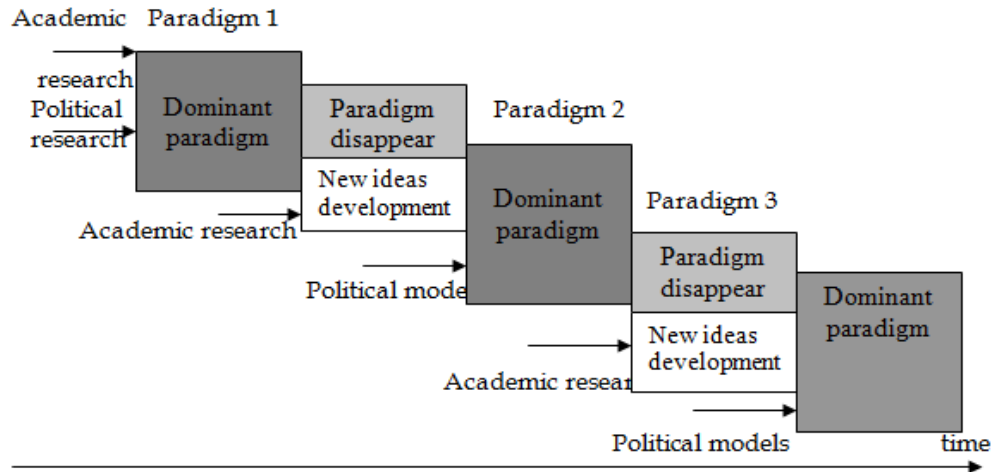
Figure 1: GEM 2004 structure
Source: personal contribution using Bayoumi Tamim (2004), p.3.

Table 1: Economic reforms long term effects forecast under GEM 2004 (percentage deviation from base year)

	Goods market reformation	Labour market reformation	Both cumulated reforms
Euro area			
GDP	8.6	3.5	12.4
Consumption	4.9	3.3	8.3
Investment	17.0	3.5	21.2
Effect on labour	4.5	3.6	8.3
Real exchange rate	4.2	1.1	5.3
Utility	1.9	0.9	2.0
Rest of the world			
GDP	0.7	0.2	0.8
Consumption	1.0	0.3	1.3
Investment	0.5	0.1	0.7
Effect on labour	0.1	0.0	0.2
Real exchange rate	0.9	0.3	1.2

Source: Bayoumi, Laxton and Pesenti (2004).[1]

---

[1] **Bayoumi T., Laxton D. and Pesenti P.,** *Benefits and Spillovers of Greater Competition in*
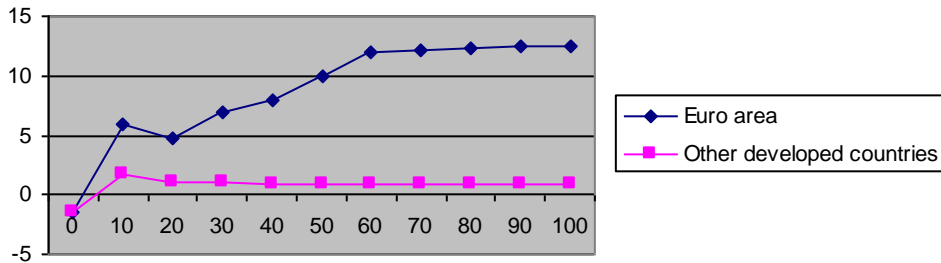
Figure 2: Real GDP quarter evolution (%)
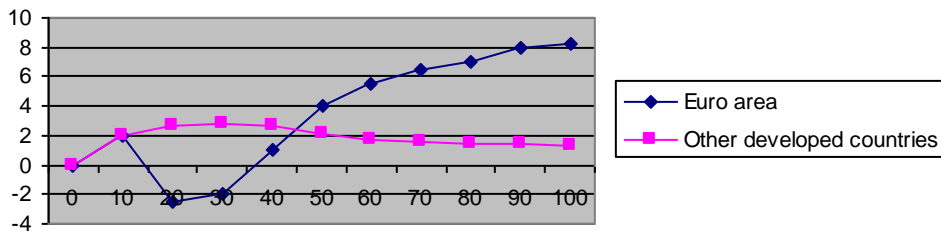Source: personal contribution

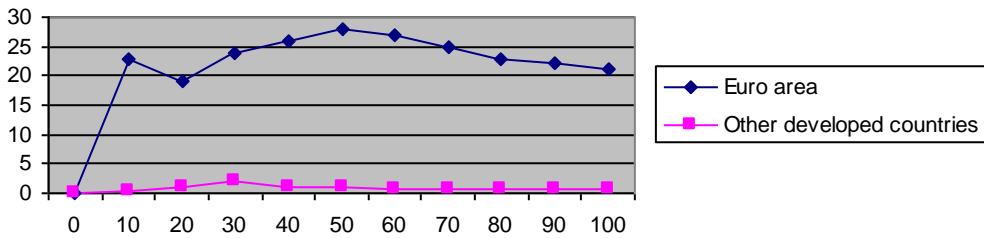**Figure 3: Consumption quarter evolution (%)**
Source: personal contribution

Figure 4: Investment quarter evolution (%)
Source: personal contribution

Europe: A Macroeconomic Assessment, ECB Working Paper no.341, Frankfurt, 2004.

Table 2: Analysed regions under GEM 2007

No.	Region	Component countries
1.	CA	Canada
2.	US	USA
3.	CX	OPEC (Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Arabia Saudi, Venezuela), Algeria, Argentina, Australia, Azerbaijan, Bahrain, Brazil, Chile, Indonesia, Mexico, New Zeeland, Norway, Oman, Russia and South Africa
4.	AS	China, Hong Kong, India, South Korea, Malaysia, Philippines, Singapore and Thailand
5.	RC	EU25 and Japan

Source: adaptation after Lalonde R., Muir D., op.cit., 2007, p. 111.

Table 3: GEM 2007 key parameters

Parameter	CA	US	CX	AS	RC
Preference rate in time $\left(1/\beta^4 - 1\right)*100$	1.9	1.9	1.9	1.9	1.9
Depreciation rate δ	0.02	0.02	0.02	0.02	0.02
Inter-temporary substitution elasticity $1/\sigma$	0.7	0.7	0.7	0.7	0.7
Consumption traditions b_c	0.85	0.85	0.85	0.85	0.85
Labour elasticity[1] $1/\xi$	0.2	0.2	0.2	0.2	0.2
Share liquidity constraint on consumption SLC	0.2	0.2	0.2	0.2	0.2
Labour traditions b_l	0.75	0.75	0.75	0.75	0.75

---

[1] **Frisch Ragnar,** A complete scheme for computing all direct and cross demand elasticises in a model with many sectors**,** Econometrica 27, 1959, pp. 177-196.
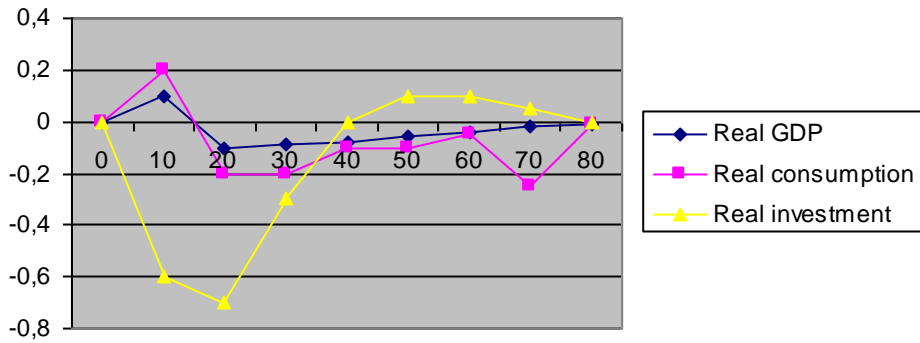
Figure 5: GDP, consumption and investment quarter evolution in Canada (%)
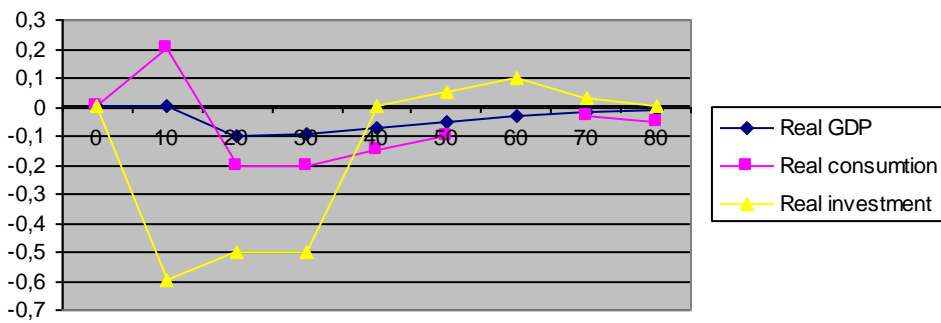Source: personal contribution

Figure 6: GDP, consumption and investment quarter evolution in USA (%)
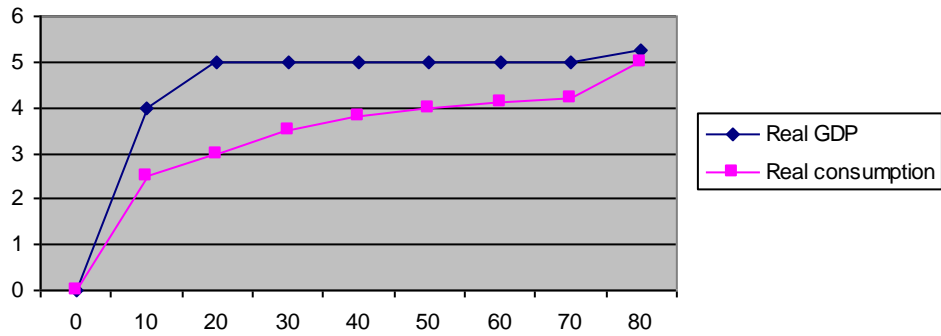Source: personal contribution

74

Figure 7: GDP and consumption quarter evolution in the Asian emergent economies (%)
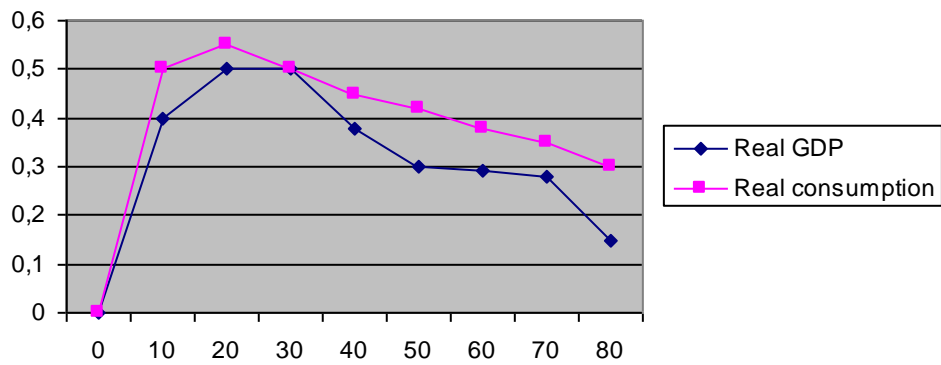Source: personal contribution

Figure 8: GDP and consumption quarter evolution in the EU and Japan (%)
Source: personal contribution

TAXATION AND TAX HARMONIZATION AS A PROCESS IN THE EUROPEAN UNION[1]

Irena Szarowská[2]

Abstract

The paper is focused on tax harmonization and development of taxation in the European Union. The first part defines and specifies the term tax harmonization, based on a literature review. Next, the degrees of tax harmonization are explained. The third part of the paper summarizes the European Union approach to tax harmonization. The fourth section presents current development and also the level and the structure of tax burden in the European Union.

Key words*: tax harmonization, degree of harmonization, tax burden, tax quota, implicit and nominal tax rate.*

JEL Classification: H20, H30.

Introduction

The concept of a common market involves the elimination of all obstacles to intra-community trade in order to merge the national markets into a single market bringing about conditions as close as possible to those of a genuine internal market. A debate about tax and fiscal cooperation and harmonization has existed in Europe since the foundation of the European Economic Community in 1957, and it has been intensified mainly because of the European Monetary Union (EMU). The EU proclaims that its functioning is connected to the single internal market, which is defined as an area without inner borders, and within this area, there are four kinds of freedom ensured, i.e. free movement of goods, persons, services and capital. That is why harmonization can be understood as the theoretical condition for achieving this goal. However, it is possible to identify varying levels of harmonization between the radical poles of absolute harmonization and non-harmonization. Fiscal policy remains a symbol of

---

[2] Irena Szarowská, Department of Finance, School of Business Administration, Silesian Univesity. Univerzitní nám. 1934/3, 73340 Karviná, Czech Republic, e-mail: szarowska@opf.slu.cz

national sovereignty, so the idea of fiscal harmonization has been gradually narrowed to tax harmonization.

The aim of the paper is to define the tax harmonization and summarize the European Union approach to harmonization. The analysis will be focused on direct and indirect tax harmonization as well as on the current development, level and structure of tax burden in the European Union.

1. Definition and specification of tax harmonization

Although the term "tax harmonization" is frequently used, it is a problem to find comprehensive definition. Rounds (1992) defines harmonization as any situation where differences in taxation between the states (or provinces) are reduced either by cooperation among the states or by a federal government policy. Dosser (1973) restricts tax harmonization to tax coordination among nations in the process of integration in a customs union or economic union. However, this definition is no longer adequate to cover the full current use of the term. Prest (1979: 76) argues: "coordination is essentially a low-level meaning of harmonization because it could be interpreted as no more than some sort of consultation process about organising tax systems in a similar sort of way". Rounds (1992: 91-92) suggests that harmonization "refers to any situation where differences in taxation between the states (or provinces) are reduced either by co-operation among the states or by a federal government policy" but acknowledges that a completely uniform tax system may "not be optimal or practical." Peggy Musgrave (1967: 210) suggests a more open definition, based on ends rather than on precise institutional arrangements, "Fiscal harmonization may be viewed as the process of adjusting national fiscal systems to conform to a set of common economic aims".

Hitiris (1994) prefers a wider view of the term and describes two approaches to tax harmonization - the equalisations approach and the differentials or fiscal diversity approach. Essentially the equalisations approach is that each country ends up with the same tax system. The differential approach allows each country to use its tax system as a tool of policy in achieving major economic aims. This might be crudely summarised as saying that harmonization can mean that either different countries' tax systems remains the same or they become different, so some

further exploration of the term is required.

In the report published by the International Bureau of Fiscal Documentation (IBFD), Lyons (1996: 153) defines tax harmonization as "the process of removing fiscal barriers and discrepancies between the tax systems of the various countries creating the European Union. The first part of the IBFD definition, removing fiscal barriers, refers to the promotion of a free trade area. It implies that imported goods and services within a free-trade area should not be subject to any fiscal discrimination in comparison to domestically produced goods and services. It is the aspect known as "removing...discrepancies between tax systems" more openly. Harmonization could be taken to mean bringing into harmony or agreement, reconciliation or standardisation in his point of view - Brown (1993: 1192).

James and Nobes (2002:17) argue about the extent of harmonization: "Complete harmonization might imply that each country had exactly the same tax system. This would mean that each country had the same taxes, for example, value added tax, imposed on the same tax base, that is the same goods and services were subject to tax in each country. It would also mean that the same tax structure, that is the same rates of tax, was applied in each country. However, harmonization might be considered to be something involving less standardisation - more in terms of tax systems operating in harmony in the sense of making up a consistent and orderly whole, without each part being identical". Following this fiscal federalism approach, the question becomes how far differences in taxes between countries may be consistent within an overall situation of tax harmonization.

Tax harmonization often deals with the ability of governments across jurisdictions in a union to coordinate or harmonize corporate tax rates so as to optimize local revenues, while simultaneously attracting capital to, and preventing outflows or cross-hauling of capital out of their jurisdiction (Bucovetsky, 1991; Frey and Eichenberger, 1996; Gordon & Wilson, 1986). As Wildasin (1999) says, this is especially important in unions where local jurisdictions have a great deal of discretion over corporate tax rate levels. Gordon (1983) declares that in a federal system of government each jurisdiction has independent choice as to what tax rate will be chosen, as well as what level of public goods will be provided.

This distinction however, does not apply only to federal systems but

to multijurisdictional contexts in general. Kanbur and Keen (1993) recall the similarities between a federal system of government, in terms of tax harmonization, and political and/or economic unions, such as the EU, and even go so far as to include international tax issues. The reasons for these similarities are the underlying difficulties and benefits of this type of cooperation. The EU has faced many of the same problems as federal states throughout the course of its history, though contexts and constraints are different, similarities are nevertheless significant. For further discussion of tax definitions and classifications see James (2002), James and Nobes (2002) or Serna (2008).

2. Degrees of tax harmonization

There are several possible dimensions of tax harmonization including the taxes levied, the tax bases, the rates of tax and the ways in which taxes are administered. Figure 1 indicates a possible classification. Complete harmonization or standardisation of taxes is the one extreme shown at the right part of Figure 1. Each country has exactly the same tax system. It means each country imposes the same taxes, for example value added tax, levied on the same tax bases (goods, services) and at the same rates. No harmonization is the other extreme. The left part of Figure 1 implies different taxes in different countries. It also implies no double taxation agreements. Administration considerations might also be important – for example involving coordination between the tax authorities in different countries over matters such as tax evasion. No harmonization would also seem to imply no systematic administrative cooperation either.
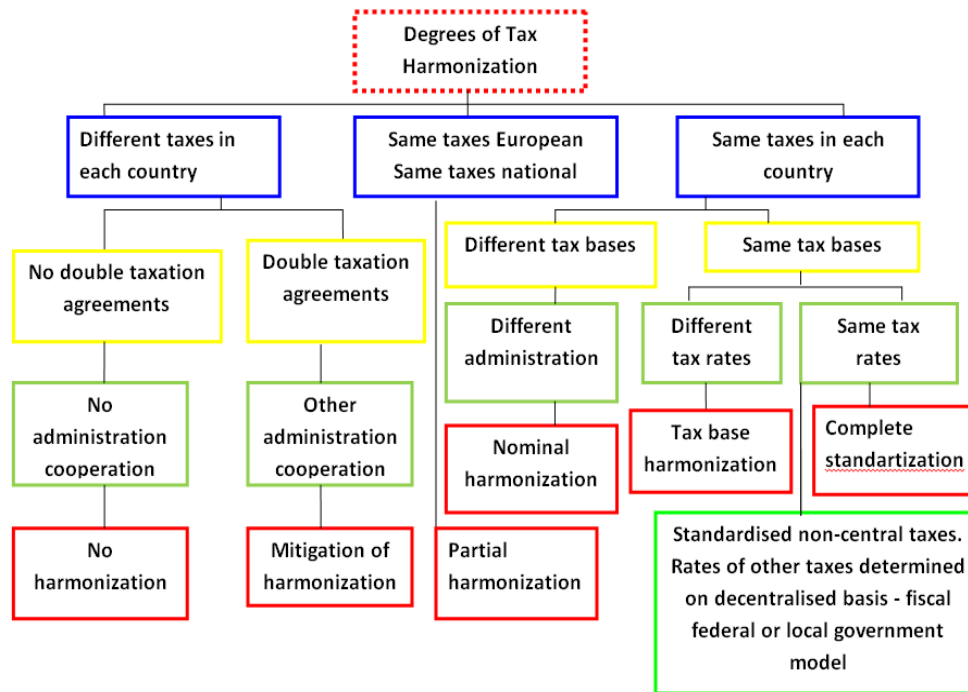
Figure 1: Degrees of tax harmonization
Source: based on James (2002: 19)

It is possible to identify varying levels of harmonization between the radical poles of absolute harmonization and non- harmonization. The first movement away from completely different fiscal systems might be the introduction of a degree of administrative cooperation between tax authorities regarding taxpayers with tax affairs falling within more than one tax jurisdiction. The next step might be the negotiation of formal double taxation treaties so that the same income is not taxed twice by two or more different tax jurisdictions. Therefore, this situation is described as the mitigation of harmonization.

A possible compromise could be partial harmonization, which entails the harmonization of some taxes and not others. In this way, for example, the European Community could establish some taxes to be applied uniformly in all the member states, allowing them to impose other

taxes as they deem fit.

Nominal harmonization is a higher form of tax harmonization in that, although countries have the same taxes – as is the case in the European Community for corporation tax, value added tax and income tax, however, these taxes are not levied on the same tax base or by means of the same administrative methods in all the member states. For instance, the tax base might vary from country to country, and although each member state levies an income tax, the scope differs from such taxes in different countries. As regards indirect taxation, some goods and services are subject to tax in some countries, but they are not subject in other countries. Moreover, the method of administering a tax might be different. Each member state has a form of corporation tax, but they use different forms of interpretation between tax paid on corporate profits and that imposed on shareholders, e.g. the classical system or imputation system.

3. European Union approach to tax harmonization

Since the foundation of the European Economic Community in 1957, there is an ongoing debate over the necessity of an overall tax harmonization in Europe, which recently has been intensified mainly because of European Monetary Union. The EU proclaims that its functioning is connected to the single internal market, which is defined as an area without inner borders, and within this area, there are four kinds of freedom ensured, i.e. free movement of goods, persons, services and capital. Fiscal policy is a symbol of national sovereignty and responsibility for fiscal policy lies mainly with the member states, who may delegate some of it from central to regional or local level, depending on the constitutional or administrative structure of government. The efforts of fiscal harmonization have been centered around limited areas in the EU, where there are strong arguments in favor of the harmonization, being the case of indirect taxes that needed a high degree of harmonization for accomplishing the single market and especially for the elimination of the customs control. For the other fields, the solution is represented by the fiscal cooperation under the following forms:

• the coordination of the fiscal policies of the Member States, in order to make the fiscal systems of the member state compatible and to assure the

Commission that the rules from these fiscal systems comply with the Treaties;

- the information exchange and the cooperation between the fiscal administrations, instruments destined to ensure the coordination of the fiscal policies;

- cooperation within OECD, especially for fighting against the harmful fiscal competition, by imposing some minimal transparency standards and an exchange of fiscal information.

At the moment the EU includes twenty seven member states with twenty seven independent systems of taxation, whose configurations result from various economic, sociological, historical and other factors. Presented aims of the tax policy of the EU count support of harmonic development of economic activities, continuous and balanced development, increasing stability, growth of living standard and close collaboration of member states. The goal or effort of the EU is not to unify national systems of taxes and contributions, but to ensure their mutual comparability in accordance to accepted contracts established in the EU. The main areas for some degree of EU tax cooperation are such as:

- increased economic integration and mobility of factors of production may lead to a situation in which, on the one hand, Member States develop "harmful" strategies to attract or retain mobile tax bases and, on the other hand, taxation would increasingly be shifted to the immobile factor, labour;

- there are tax obstacles to the implementation of the single market and a common action is required to tackle those because action at national level could lead to an inefficient allocation of resources;

- there are tax externalities that can be better tackled at the EU level;

- the system and principles of the EU limits its role in stabilization and redistribution, so cooperation at the EU level may actually help Member States to preserve the resources needed to achieve these policies at the domestic level;

- because of common monetary policy, there may be a need for multilateral surveillance on the impact of taxes on economic output and stability[1].

---

[1] For details see EC (2000).

Nowadays there are boundaries for individual types of taxes determined in the EU as follows:

- personal incomes taxes remain in the authority of national governments;
- corporate taxes should help free movement of capital and should not cause harmful competition between individual states;
- social and pension systems should eliminate discrimination of residents of individual states and should not be an obstacle to free settling and investing in any member state of the European Union;
- indirect taxes—directly affecting functioning of the single market— attract a lot of attention and efforts to be harmonized.

Although harmonization has progressed significantly in the area of indirect taxes, substantial differences still exist in commodity tax rates, and they cause some distortion. "One of the reasons for its temporary discernment is the worry in some member countries that reduction of indirect taxes would have serious implications for the provision of public goods, and thus welfare, in those countries." (Lahiri and Raimondos, 1998: 266). But Baimbridge and Whyman (2004) argue that the literature emphasizes the potential welfare gains from indirect tax harmonization (Keen, 1989; Keen and Lahiri, 1993; Kanbur and Keen, 1993; Lopez-Garcia, 1996; Delipalla, 1997; Lockwood, 1997; Lahiri and Raimondos, 1998; Lopez-Garcia, 1998). The progress that has been achieved thus far is the establishment of minimum rates of indirect taxes. The system of indirect taxation is based on the Value Added Tax (VAT) and the destination principle in the EU, and the goods are taxed on the basis of where they are consumed. The minimum standard VAT rate is currently 15 %, and the minimum reduced VAT rate is 5 %. However, exemptions can be applied to this rule for a number of commodities (e.g. basic goods and newspapers) in some member states (see details in Szarowská, 2008).

On the other hand, differences in direct taxation have higher importance as they cause more severe economic distortions. The prospects for more coordination in corporate taxation were revived in 2001 when the European Commission issued a communication on company taxation in a single market. The report from the European Commission contained a study on the level, the dispersion and the determinants of corporate effective tax rates in the EU15, and a Communication with concrete policy proposals based on the identification of a series of tax obstacles to the

completion of the single market, first the cross-border loss relief and transfer pricing, the presence of excessive tax administrative costs, double-taxation problems and other tax-related difficulties for companies doing business on an European-wide basis. To analyze the effect of the 2000 German tax reform, the study used marginal and average effective corporate tax rates for domestic and cross border investment in 1999 and 2001. It found a large dispersion of these rates in Europe as the average effective tax rate varied for example from 10.5 % in Ireland to 34.9 % in Germany. The report did not study the impact of this dispersion on investment patterns in Europe, nor did it assess the welfare effects. However, it provided statistical simulations of policy changes on the dispersion of the effective rates. Its main conclusion was that effective tax rates were mainly influenced by statutory rates and that harmonizing the latter would significantly reduce dispersion.

In terms of policy recommendation, the European Commission issued a two-track approach to tackle the tax obstacles to cross-border economic activity in the Internal Market. First, some so-called targeted solutions aimed at refreshing some pieces of EU legislation to deal with specific situations not foreseen by the legislator or to widen their scope of action. This is, for example, the case of the 1990 Parent-subsidiary directive and the 1990 merger directive for which the new European Company Statute had to be integrated into the legislative texts. In addition, the holding threshold from which the parent-subsidiary directive applies was lowered from 25 % to 10 %, and the new merger directive now covers the conversion of permanent establishments into subsidiaries. Second, the European Commission discussed four so-called comprehensive solutions for harmonizing corporate tax bases in Europe:

1. Home State taxation

It involves all or groups of member states agreeing to accept that certain enterprises with operations in a number of member states should compute their taxable base according to the tax code of a single member state – the „home State"- instead of according to all the different tax codes of the respective member states where they have operations. For companies operating in several member states, this would represent a significant simplification compared with the current situation.

2.   Common consolidated corporate tax base (CCCTB)
It involves all member states, or possibly initially only a group, agreeing on a set of common rules for establishing the taxable base of certain enterprises with operations in a number of member states. The agreed upon set of common European rules should take agreed International Accounting Standards / International Financial Reporting Standards (IAS/IFRS) as a starting point. Each group of companies would have only one tax base (CCCTB) to calculate, tax rate would be set by the individual member states.

3.   European Union company income tax
This system would also require the drafting of a new, single corporate tax code to apply across the EU. In its purest form, it would be administered by a new single authority, with a single EU tax rate. Revenues would be used to fund the EU institutions and activities with any excess allocated between member states according to an agreed upon formula. However, it could also be administered by individual member states in much the same way as value added tax, and each member state could apply its own tax rate to its allocated share of the tax base. From a political perspective, EU company income tax represents a fundamental change in that member states are required to relinquish an element of their fiscal sovereignty and establish a federal EU tax.

4.   A single compulsory harmonized tax base
This system would require a single corporate tax code to be applied across the EU, to all enterprises, by all member states, replacing the existing domestic tax codes. The setting of the tax rate would remain in the jurisdiction of single member states. The existing tax codes would cease to exist and member state administrations would all operate the harmonized code without the need for a new centralized administration. The consolidated tax base of each EU enterprise would therefore have to be allocated between member states according to the terms of an agreed upon mechanism.[1]

---

[1] For details see EC (2001) or Blechová (2007: 7-15)

It has been noted in various studies that the benefits of harmonization and results are not unambiguous. For example, Jacobs et al. (2005) examine overall effective tax burden in 13 countries. Their analysis is based on a comparison of differences in taxation with and without a system of Common Consolidated Corporate Tax Base[1] . The adoption of IAS/IFRS has an impact on the deduction of expenses from the tax base (e.g. depreciation, valuation of inventories, provisions for liabilities). A transition to tax accounting on the basis of IAS/IFRS within the EU has only minor effects on the effective corporate tax burden. A major finding of the study reveals that the effective corporate tax burdens in all countries (except Ireland), tend to increase slightly since the tax bases tend to become broader. Moreover, some member states fear that harmonization of the tax base would be done in such a way that the agreement would lead to small tax bases, forcing these countries to raise their rates as to keep revenues constant. It shall be insisted that the best option is a broad tax base for efficiency reasons. The European Commission has no plan to harmonize the rates or to impose a minimum statutory corporate tax rate. The comprehensive solutions seek to tackle particular tax obstacles to cross border activities, to reduce the compliance cost of dealing with different tax systems now, and to improve the competitiveness of European companies while preserving the public finance of the member states.

---

[1]System CCCTB is based on International Accounting Standards / International Financial Reporting Standards (IAS/IFRS) which are obliged for all companies listed on EU stock exchanges from 2005.

4. Development of tax burden in the European Union

The next table presents tax rates in the EU and we can see significant differences in tax burden between Member States.

Table 1: Tax rates in the European Union in percentage (2010)

Country	Personal income tax		Corporate income tax	Value Added Tax		
	Number of rates	The highest rate		Super reduced rate	Reduced rate	Standard rate
Austria	4	50	25	-	10	20
Belgium	5	50	33	-	6; 12	21
Bulgaria	1	10	10	-	7	20
Cyprus	4	30	10	-	5;8	15
Czech Rep.	1	15	19	-	10	20
Denmark	4	59	25	-	-	25
Estonia	1	21	21	-	9	20
Finland	3	43.6 *	26	-	9;13	22
France	5	40	33.3	2.1	5.5	19.6
Germany	5	45	15	-	7	19
Greece	4	40	25	4.5	9	19
Hungary	2	36	19	-	5; 18	25
Ireland	2	41	12.5	4.8	13.5	21
Italy	5	43	27.5	4	10	20
Latvia	1	23	15	-	10	21
Lithuania	1	15	20	-	5; 9	21
Luxembourg	17	38	21	3	6; 12	15
Malta	8	35	35	-	5	18
Netherlands	4	52	25.5	-	6	19
Poland	2	32	19	3	7	22
Portugal	7	42	25	-	5; 12	20
Romania	1	16	16	-	9	19
Slovakia	1	19	19	-	10	19
Slovenia	3	41	20	-	8.5	20
Spain	4	43	30	4	7	16
Sweden	3	56.5 **	26.3	-	6; 12	25
UK	3	40	28	-	5	17.5

*The maximum personal tax rate (25 %) plus the average municipality rate (18.6 %).
**The maximum personal tax rate (25 %) plus the average municipality rate (31.5%)
Source: data from Taxes in Europe [online database] [cit 2010-08-15]

According to the fact that taxes bring the highest incomes into the public budgets, member states of the European Union may be divided into three groups. The following table shows that in sixteen countries, the main source of public revenues is indirect taxes, i.e. taxation of consumption. In six countries the highest revenues come from direct taxes (mainly personal and corporate incomes taxes) and in five countries the basic source of public budgets are payments for social welfare.

Table 2 Division of EU countries according to the main tax resource in 2008

Main Source of Tax Revenues		
Indirect Taxes	Direct Taxes	Social Contributions
Bulgaria, Estonia, Ireland, Italy, Cyprus, Lithuania, Latvia, Hungary, Malta, Poland, Portugal, Austria, Romania, Greece, Slovenia, Spain	Belgium, Denmark, Finland, Luxembourg, Sweden, United Kingdom	Czech Republic, France, Germany, Netherlands, Slovakia

Source: The author's compilation according to Eurostat data

Member states have very different structures according to the type of tax. Direct taxes only account for around 22 % of total revenues in Bulgaria, Romania and Slovakia while they represent more than 62 % in Denmark. The share of indirect taxes varies from 30 % in the Czech Republic, Spain and Finland to 56 % in Bulgaria. Social contributions only bring 2 % of total revenues in Denmark, but 45 % in the Czech Republic[1].

Total average revenues accounted for 38% of indirect taxes, 32 % of direct taxes and 30 % of social contributions in 2008. It also confirms a standard, generally used economic rule which prefers indirect taxes[2] to direct ones. As Široký (2009) points out, high income taxes may discourage employees from earning more, and force companies to take their profits into countries with the lowest tax rates. Therefore, many economists claim

---

[1] For details see Taxation trends in the European Union (2010)
[2] Indirect taxes are value added tax, excise tax, duty and other indirect taxes.

that the best taxes for the economy are those from consumption. Their level may threaten groups with low incomes but this may be compensated for special social benefits. Moreover, they are transparent[1].

The next figures are focused on development and changes in structure of taxation (measured by total tax quota[2] and implicit tax rates[3]) in member states.

Figure 2 delineates the change in the overall tax burden into (positive or negative) changes of its three major components. The red line shows the change in the overall tax to GDP for all the countries. The figure highlights that some member states only shifted taxation from one type of taxes to another in the period under consideration. The Czech Republic is an example of zero total changes in tax burden as it shifted the burden of taxation from taxes to social contributions - France did the opposite. Slovenia, Latvia, and the Netherlands also changed a tax mix and shifted the burden of taxation from social contributions to taxes. Examples of significant changes in the tax mix are Bulgaria and Romania, which shifted the burden of taxation from social contributions to indirect taxes. However, this is not visible in the figure due to the lack of data for 1995. We can find the highest difference in tax burden in Slovakia (decrease more than 11 %) and Cyprus (increase more than 12 %) during the period 1995 - 2008. Significant structural changes in fiscal policy are the main reasons for the development.

---

[1] Direct taxes are imposed on a concrete subject that may not transfer this tax on somebody else, e.g. income tax. Indirect taxes are also imposed on a concrete subject, but may be transferred on another one.

[2] Total tax quota is a macroeconomic indicator that is calculated as proportion of tax and duty revenue and to GDP in current prices. It eliminates shortcomings of information about statutory taxation in international comparison as statutory taxes does not say much about real tax burden with regard to different construction of taxes in individual countries. Level of tax rate is only one of the variables. Resulting values substantially affect differently constructed tax bases, from which the tax is calculated, as well as systems of exceptions and deductible items that vary in every country.

[3] Implicit tax rates consider not only statutory tax rates but also other aspects of a tax system that determines volume of effectively paid tax.
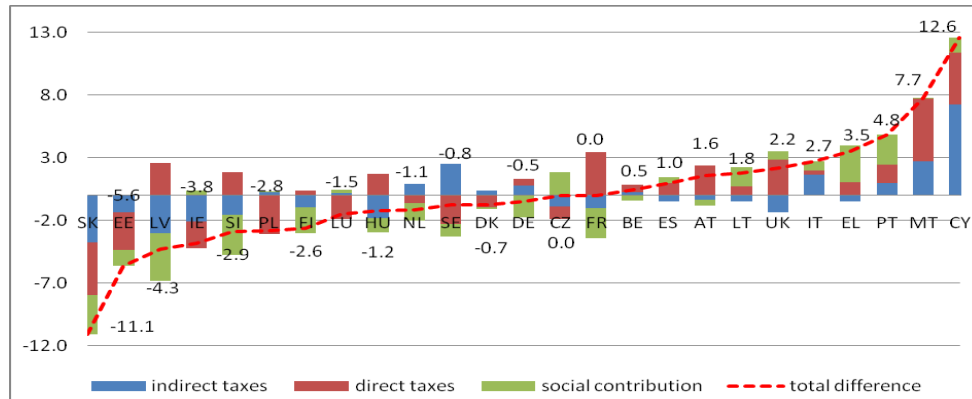
Figure 2 Total tax quotas in % GDP - difference 1995 - 2008
Source: The author's compilation based on Eurostat data

Member states with lower share of direct taxes in tax mix often seek to harmonize corporate income taxes. These states have higher levels of corporate tax burden compared to other states, and to the rest of the world[1]. The European Commission (2010) points out that the increase of capital mobility has raised concerns that excessive levels of taxation could influence capital and especially move profits to low tax jurisdictions. At the same time, there are hopes to attract foreign capital investments by offering an attractive tax treatment. Taxes on capital and corporate income may have distorted effects on the market, particularly in highly integrated areas like the EU Internal Market. These distortions may also impact personal income taxes because taxes on capital reduce capital accumulation and therefore negatively impact productivity levels, which in turn depress wages. Next, the fact that capital is generally more mobile than labour has generated the apprehension that the burden of taxation would be shifted from the former to the latter. Equity considerations also feature prominently in the debate on the taxation of capital held by individuals,

---

[1] The European Union is a high tax area. In 2008, the overall tax ratio (i.e. the sum of taxes and social security contributions) amounted to 39.3 % in the GDP-weighted average in the 27 Member States (EU-27), and it is more than one third above the levels recorded in the United States and Japan. The tax level is in the EU high not only compared to those two countries but also compared to other economies in general- among the major non-European OECD members, only New Zealand has a tax ratio that exceeds 34.5 % of GDP.

given that capital is more lightly taxed than labour income, and is often taxed at flat rates, which calls for an effective taxation of capital income to avoid eliminating the meaning of the income tax progressivity. The relative mobility of capital has stimulated the apprehension about tax competition and a subsequent race-to-the-bottom in capital tax rates.

Since 1995, corporate income tax rates in Europe have been cut forcefully, from a 35.3 % average in 1995 to 23.2 % now. This trend has not been interrupted by the financial crisis. On the contrary, a few member states introduced cuts in 2010 (the Czech Republic, Greece, Lithuania, Hungary, Slovenia) and none increased them. Although the downward trend has been quite general, corporate tax rates still vary substantially within the Union. The adjusted statutory tax rate on corporate income varies between a minimum of 10 % (in Bulgaria and Cyprus) to a maximum of 35 % in Malta, although the gap between the minimum and the maximum has shrunk since 1995. Figure 3 presents differences between nominal and implicit corporate tax rates1.
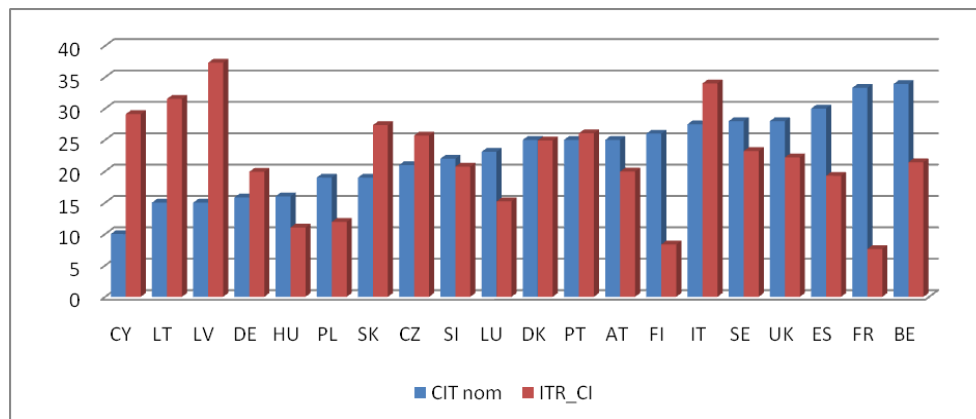
Figure 3 Nominal and implicit corporate income tax rates (2008)
Source: The author's compilation based on Eurostat data

---

1 For comparison of tax burden, the easiest way is to use statutory tax rates but the result may be rather inaccurate. More convenient way is comparing implicit tax rates that consider not only size of statutory tax rates but also other aspects of tax systems determining the total amount of effectively paid taxes.

Figure 4 highlights trends in development of the three main implicit tax rates: on labour (ITR_L), on consumption (ITR_C) and capital (ITR_K) in the period 1995 - 2008. Implicit tax rates on labour remain well above those for capital and consumption. The decline in labour taxation stopped in 2005 and we can see now a stabilised development. Effective taxation of capital was on the increase until 2007, this was the case despite considerable cuts in the top corporate tax rates, most likely indicating a base broadening. Consumption taxation has been trending upwards slowly since 2001, before falling slightly in 2008. Figure 4 also confirms significant differences between tax burdens in and out of the Eurozone.

Conclusions

The concept of a common market is based on an idea of elimination of all obstacles to intra community trade in order to merge the national markets into the single market. That is why harmonization can be understood as the theoretical condition for achieving this goal. However, it is possible to identify varying levels of harmonization between the radical poles of absolute harmonization and non-harmonization. The efforts of harmonization have been centered around limited areas in the EU, where there are strong arguments in favour of the harmonization, being of the case of indirect taxes. The progress that has been achieved thus far is the establishment of minimum rates of indirect taxes in the EU.
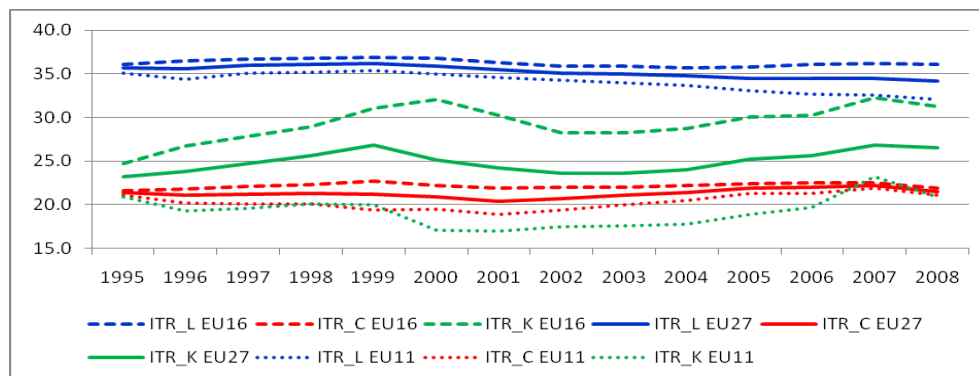
Note: EU11 (Bulgaria, Czech Republic, Denmark, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Sweden, United Kingdom).

EU16 - Eurozone (Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia).

Figure 5 Development of implicit tax rates in % (1995 – 2008)
Source: The author's own compilation based on data from Eurostat.

The system of indirect taxation is based on the VAT and the destination principle, in which the goods are taxed on the basis of where they are consumed. The minimum standard VAT rate is currently 15 %, the minimum reduced VAT rate is 5 %. However, exemptions can be applied to this rule for a number of commodities in some member states. Differences in direct tax rates have greater importance as they cause more severe economic distortions. Functioning of the single market is disturbed by many problems related to business activities realized across the borders of individual member states in the EU. The reason is a substantial dissimilarity of tax systems used in member states, and a related dissimilarity of effective tax burden of business units in individual member states. However, we can see progress in the field of double taxation, administrative cooperation or cross border activities. Theoretically, it is possible to better harmonize direct taxes, but it is difficult to realize in practice because the member states do not want to give up on their fiscal sovereignty. Tax competition and differences in tax burden are noticeable between member states in spite of an effort to harmonize them. **Moreover,** harmonization of taxes is usually associated with rising tax burden and it could reduce the EU competitiveness against the rest of the world. The EU is already an area with a high tax burden.

References

1. **Baimbridge M., Whyman P**., *Fiscal Federalism and European Economic Integration*, Routledge, UK, 2004.
2. **Blechová B.,** *Corporate tax competition and coordination in the European Union*, in Acta academica karviniensia 1, 2007.
3. **Brown L.** (ed.) *The New Shorter Oxford English Dictionary*, Clarendon Press, 1993.
4. **Bucovetsky S.,** *Asymmetric Tax Competition,* in Journal of Urban Economics, 30, 1991.

5. *Company Taxation in the Internal Market* [online]. Commission of the European Communities: Brussels, 2001. [cit. 2010-09-23]. Url: http://ec.europa.eu/taxation_customs/resources/documents/company_tax_study_en.pdf

6. *Data Explorer* [database online]. Eurostat, 2010 [cit. 2010-03-23]. Url: http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=nama_gdp_c&lang=en.

7. **Dosser D**., *British Taxation and the Common Market*, Charles Knight, London, 1973.

8. **Dougherty Ch**., *Introduction to Econometric,* Oxford University Press, 2007.

9. **Frey B. S., Eichenberger R.,** *To Harmonize or to Compete? That's not the Question*, in Journal of Public Economics 60, 1996.

10. **Gordon R. H**., *An Optimal Approach to Fiscal Federalism*, in The Quarterly Journal of *Economics* 98, 1983.

11. **Gordon R. H., Wilson J.D.,** *An Examination of Multijurisdictional Corporate Income Taxation under Formula Apportionment*, in Econometrica 54, 1986.

12. **Hitiris T.,** *European Community Economics*, Harvester Wheatsheaf, London, 1994.

13. **Jacobs O. H. et al.,** *EU Company Taxation in Case of a Common Tax Base*, in Discussion Paper No. 05-037, ZEW Institute, Manheim, 2005.

14. **James S**., *Economics of Taxation within a Federal Context*, University of Exeter, 2002.

15. **James S., Nobes C.,** *The Economics of Taxation*, 7th ed. Harlow, Prentice Hall, 2002.

16. Kanbur R., Keen M., Tax Competition and Tax Coordination When Countries Differ in Size, in The American Economic Review 83, 1993.

17. **Lahiri S., Raimondos P**., *Public good provision and the welfare effects of indirect tax harmonization*, in Journal of Public Economics 67, 1998.

18. **Lyons S.M.,** *International Tax Glossary*, International Bureau of Fiscal Documentation, 1996.

19. **Musgrave P.B**., *Harmonization of Direct Business Taxes*, in Fiscal Harmonization in Common Markets, Volume II, Columbia University Press, 1967.

Prest A.R., *Fiscal Policy in P. Coffey (ed.) Economic Policies of the Common Market*. Macmillan, London, 1979.

20. **Rounds T. A**., *Tax Harmonization and Tax Competition: Contrasting Views and Policy Issues in Three Federal Countries*, The Journal of Federalism 22, 1992.

21. **Serna G.R**., *State Corporate Tax Policy: Is Tax Competition the Main Determinant?* Access from: Url*:* www.martin.uky.edu/Capstones_2008/Serna.pdf [cit. 2010-09-30]

22. **Szarowská I.,** *Daňové zatížení a ekonomický růst v Evropské Unii*, in Teoretické a praktické aspekty veřejných finance, Vysoká škola ekonomická, Praha, 2010.
23. **Szarowská I**., *Stav harmonizace daně z přidané hodnoty v Evropské unii*, in Acta Academica Karviniensia 2, 2008.
24. **Široký J**., *Daně v Evropské unii,* Linde, Praha, 2009.
25. *Tax Policy in the European Union* [online]. European Commission: 2000. Url: http://ec.europa.eu/publications/booklets/move/17/txt_en.pdf .
26. *Taxation trends in the European Union*, Office for Official Publications of the European Communities, Luxembourg, 2010.
27. **Wildasin D. E**., *State and Provincial Corporation Income Taxation: Current Practice and Policy Issues for the US and Canada*, in Canadian Tax Journal/Revue Fiscale Canadienne, 48, 1999.

THE GREAT MOMENTS OF URBAN INDUSTRY IN GALATI CITY

Violeta Puşcaşu[1]
University „Dunărea de Jos" Galati

Abstract

The article deals with the problem of urban evolution and spatial planning in the Galati city through the last two centuries. Three great periods are identified that change the urban morphostructure. The first begins with the embrios of shipping industry in close relationship with the natural conditions. The second stage reflects the planned policy affecting also the material and immaterial structure of the city. The last 20 years express the new wave of urban industry connected to a mixed technopolitan evolution.

Keywords: *spatial distribution, industry, environment, planning*

JEL Classification: R19, R29, R59.

Introduction

Is Galati city a result of industrial planning? The answer to this question is definitely affirmative. As any developed urban structure, the city along the maritime Danube river displays through its functional zoning the evolution of the stages of territorial organization influenced by the industry.

Today's industrial landscape of the city displays a mosaic generation of industries which were implanted during various and different political, economical and social circumstances. What exists nowadays within the Galati industrial space represents an aggregate, from the 19th century naval construction industry till the technological pole of the late 20th century, where almost the entire range of generations of industries can be found.

There are three generations of industries, easily identifiable in the

---

[1] Violeta Puşcaşu is Professor at the Faculty of Economics and Faculty of Legal, Social and Political Sciences, University „Dunărea de Jos" from Galati, tel/fax40.236.493.370, email: violeta.puscasu@ugal.ro Since 2007, she has acted as an urban geography charter designated by the Register of Urbanists from Romania (RUR).

Galati urban area, which constitute a real industrial belt around the city of today:

- *the proto-industries*, situated in the proximity of the quay, directly connected to the portuary activity and to the activities related to it (naval industry, mechanical industry, food industry, wood industry, etc.);
- *the "planned" industries* of the communist era (iron and steel industry, construction materials industry, chemical industry, textile industry);
- *the industries of contemporary dynamics* (textile industry, food industry, high technology industry) situated in various points both peripheral and within the city.

I. The proto-industry

The proto-industry makes the first industrial nucleus in Galati, centred on the harbour-naval repairs doublet which, in time, will polarize a range of related, but also distinct, activities gradually transforming the initial nucleus into a functional and well shaped industrial zone.

The trades, the ferments of proto-industry, played a primordial part not only by their numbers but also by the position they occupied in the life of the city on the Danube. Due to them, the city becomes a centre of trade production which will complete the label of "borough[1]" (Rom. *târg*) – a centre of exchanging goods.

Once the Porto Franco regime was obtained, but also due to the political and economic evolutions of the second half of the 19th century, the factory production is present in Galati.

The industries of the first generation, whose locations were strongly influenced by the economical principle of minimizing the transport costs by placing the facility in the proximity of the source of raw materials, experience their growth in Galati due to the conditions offered by the city: raw material in the nearby hinterland, the possibility of selling on the Porto Franco market, cheap labour force.

---

[1] In 1769, Galati was one of the "big boroughs", next to Iaşi, Botoşani, Roman and Focşani, the others being considered "small boroughs".
A shop of naval manufactory did repairing to the ships in the harbor and also built ships. In 1776 two 41.5 cubit-long boats equipped with cannons were built there for the two rulers of the Romanian countries.

They are placed, without exception, close to the quay in the low plains of the Danube and Prut rivers, which, in the local language, is called the *down town*.

Naval constructions

The tradition of the manufactory shop existent in Galati at the end of the 19th century, continued by the *Machines and boats repairing plant,* founded in 1892-1893[1], is reorganized after the war when the shipyards are re-equipped for a new production line of different tonnage.

The present factory, after undergoing a series of mutations on the administrative level, displays a structure that is both personalized and dynamic, focused on several representative categories of products[2].

The concentration of large shipyards of Romania in the maritime-riverside zone attracted to Galati the specialization in the production of naval parts, mechanisms, aggregates and subassemblies within one company with an unique profile in the country, MENAROM.

The iron and steel industry

A brief history of this industry at the level of Galati city is related to the early beginnings of factory iron and steel industry in the Danube city, being represented at the beginning of the 19th century by manufactory sections of smelting, forge, plate and wire processing, and boiler manufacturing. These will be found as metallurgical activities included in the Factory for machine and ship repairs (the Shipyard), the units of the Strousberg consortium, the Romanian Railway shops and the Depot (1869 – 1871), the *Albina* Chemical products and tin packages factory (1887), the

---

[1] **Brezeanu, I., Munteanu N.G.** (coord.), 1972, *Judeţul Galati pe scara timpului*, Întreprinderea Poligrafică Galati, pp. 90-92.

[2] DAMEN SA is the today owner of Galati shipyard. The shipyard has changed its configuration from constructors of large tonnage ships into a company oriented towards a strictly specialized and demanding market. Nowadays, the production is focused on commercial ships up to 15,000 tdw and smaller boats – motorboats, tugs or boats for special purposes such as barges according to the existent orders. Once the Galati Shipyard was taken over by the Dutch group, a series of internal structures were closed, among which those of naval repairs and passenger boats or leisure boats construction. The activity was transferred to a smaller unit – The Manufacturing and Repairing of River Boats made of fibreglass reinforced polyester (SCCA Brateşul)

Greierul steam factory of tin objects and galvanized buckets (1885), the *Leul* factory of nails and wire-drawing (1884), the *Westfalia* factory of wire and wire nails (1898) [1].

Almost all of them have nowadays an inoffensive environmental effect, excepting a strong modelling of natural landscape in the ancient down town.

II *The planned industries*

Although for the Romanian economy the meaning of the word "planned" is dichotomist, meaning an action that was wished for and an unhappy one at the same time, on the level of territorial effects it is extremely simple to clarify and understand – the appearance of the second large industrial zone, balancing the first one, with a strong metallurgical mark, sustained by the same positional favourability. This latter zone is situated in the western part of the city, beyond the Cătuşa Valley, on the Soldanului Hill, a favourable location from the viewpoint of space, of the loess thickness which ensures the sustainability of a construction pressure free of risks, of the distance from the city and from the viewpoint of the direction of the air masses which pull away the pollutants.

The metallurgical industry existing in this part of the city still applies the economic principles of stocking-redistributing and stocking-processing on the basis of which the industrial activities such as sorting the iron ores and the iron and steel industry appeared after 1965.

Arcelor/Mittal Steel S.A.

The product of an era organized according to questionable political and economical reasons, Galati Iron and Steel Plant has undergone during its evolution several stages of glorious image, productivity and economic efficiency, criticism and decline.

If in 1992 the plant had more than 38,000 employees, in 2010 their number decreases to approximately 11,000, while the turnover increases from approximately 540 bln lei in 1995 to 40,000 bln lei in 2004. After the 2004 privatization, Arcelor Mittal Steel has become the largest private

---

[1] Brezeanu, I., Munteanu, G.N., ibidem.

company in Romania, the company's turnover going beyond 2 billion dollars in 2004. The transactions based on barter were eliminated immediately after the privatization. The production increased from 3.7 million tonnes in 2001 to approximately 5 million tonnes in 2004. About two thirds of this production is destined to the external markets, the rest being contracted by companies in Romania, where Mittal Steel has a market share of 90-95%.

Other groups of activities and products as well present in Galati go under the same subsection of metallurgical industry: the coking of coal, the production of primary and semi processed ferrous metals, the production of steel and cast iron tubes, other metallurgical activities, smelting houses, nonferrous metals, etc. There are almost 20 companies in this field and their importance on this industry landscape is given by the degree of specialization and the quality of certain products[1].

Other worth mentioning units of production in the same field of metal constructions and metal products are: *The wire, nails and chains factory* (I.S.C.L.) which produces naval chains, *The metallic accessories factory* (FAM), ELNAV etc.

They are located either on the industrial platform in the west, or in multiple locations on the north-western and northern framework of the city. A thin belt is thus starting to take shape which tends to surround the existing urban area.

The environmental problem is extremely active: the pollutants affect the air and water quality, the waste products are incompletely treated and the influence on the city reflected in frequency diseases.

III *The industry of present dynamics of the community*

In this type of approach, industry is perceived especially as a product of the local community decision, as a form of planning controlled

---

[1] Here are some of these:
- *Trefo SA*, company founded in 1955, which produces industrial nails and chains, hot zincified wire;
- *Galfinband SA* founded in 1984, producer of laminated plates;
- *Profiland* – group of firms, comprising Profiland ltd and Intfor SA, the latter being more than 80 years old – producer of pipes and steel profiles.

and sustained by the local power as part of the local development policy. Locating the activities is not as dependent on the classic factors anymore and we witness dispersion, according to territorial niches, lands status, fiscal opportunities, accessibility to the sustaining infrastructure, etc. Consequently, at the level of Galati city the third generation industries are diverse and located either to the north of the city, or in the interstices among the previous industrial zones, i.e. on the north-western, northern, southern and south-eastern belt.

The scientific and technological park – the Galati Software Park

The initiative of this neo-industrial structure (the fourth generation industry belonging to the quaternary sector) belongs to a consortium of four local actors: The Galati County Council, The Galati Local Council, "Dunărea de Jos" University and NAVROM – the Galati business centre, based on the model of a similar project of the government of Bavaria land.

Its general objectives, creating an environment adequate for the functioning of the SMEs and creating/developing a significant number of SMEs equipped with advanced technology of high productivity, are already confirmed and made use of by the approximately 30 companies (recently created enterprises or branches of well-known companies) that are active inside the park and which have approximately 300 employees.

Food industry

Food industry made its appearance in the economic landscape of Galati county when the first *meat can factory*[1] was founded; it distinguished itself from the typical trade environment and from the techniques used in the old meat processing factories in Galati by the most modern mechanical tools of the age in that field.

Meat production, processing and preserving is concentrated today in two major categories of producers: companies with a complex production profile (farm, slaughter house, processing, and distribution) and small

---

[1] The locals called it the pickled meat factory. The English Golnder's factory becomes one of the most important industrial factories in Moldova at the middle of the 19th century, to be technologically competed later by the Austrian Krodop' investment in the same field of activity.
I. Brezeanu, op. cit., p. 71

producers. These are present especially in the northern part of the city, which thus becomes the concentration zone of food industry, although the city valley also hosts several units in this field. There are also present:

Oil industry, which had an explosive development in Galati at the end of the 19th century. At the beginning of the first decade of the 20th century, *E. Dinermann and sons* factory was founded and in 1923 the present *Prutul*[1] factory was built.

Vegetable and animal fats and oils production is present by *Prutul SA* Company which has 500 employees who ensures an average annual production of 17,000 tonnes of refined oil.

The milling, breading and flour paste ware industry is one of the oldest sub-branches in the food industry of Galati county as well as the meat industry but which, contrary to the latter, has had a more stable presence along the years through the series of "descendants" of the *French society of mechanical mills and bakeries of the Danubian Principalities*[2], among which the flour paste ware, biscuits and sugar products factory *Dunăreana* (the today Galmopan SA), founded in 1895, is the most representative.

Fruit and vegetables processing and preserving

Taking into account the agro-productive capacity of Galati area it is natural to have a relatively high concentration of companies in this sector due mainly to the vegetable raw material.

SC Seromgal SA, the largest company of this type in Galati, has an annual average of 2,000 tones of can production but the producer's singularity resides in the fact that it is the owner of an important piece of land (approximately 280 hectares)

The beverage industry

The beverage industry also includes the *production of beer*, situated in the production unit of SC Martens SA in Galati. This is a company with capital that comes integrally from the ex-Galati Beer Factory[3].

---

[1] The factory built in 1923 would bear the Fleming name, and the products are sold under the "Salamas Fleming Galati" trade mark having as insigne an eagle on a crown.

[2] The company with French capital Durand Prosper founded in Galati, in 1858, a mechanical mill and a bakery (I. Brezeanu, op. cit., p. 71).

[3] The ex Beer factory called after 1990 SC RO BEER SA, changes its name in 1998 to SC

The textile industry and textile products suppliers

After the interwar period witnessed the most effervescent development of the textile industry with Romanian or mix private capital, the concentration of the 40 enterprises of textile industry under the insignia of the state property will still be preserved 40 years later, being replaced by a new stage of dispersion of the phenomenon from a categorical viewpoint – after 1991.

The Galati landscape of the textile industry is marked by 15 companies that have as their main object of activity *textile industry, knitwear and ready-made clothes*[1].

Today, the textile industry at the county level is represented by the activity of *preparing and spinning the fibres and by the production of various fabrics.*

The shoe industry

A very significant aspect here is the multitude of producers. The difference among them can be analysed both from the viewpoint of size (number of employees, production) and from the viewpoint of production orientation. Out of the 40 companies focused on ready-made clothes one can notice companies such as Cozamin Ltd, whose economic success makes it representative for this kind of evolution, SC Progresul com specialized in protection equipment for Mittal Steel as well as Galatex, Galfirtes, etc. which are located all over the city area, not having the same rules of peripheral distribution.

Conclusion

The city has three industrial zones, as follows: two situated in balance position, belonging to the first and to the second generation of industries, and a third one situated in the central-northern part. These last

---

Martens SA as a result of taking the majority share stock by BROUWERIJ MARTENS n.v., the fourth beer producer in Belgium, having a tradition longer than 8 generations of beer makers, called in 2000 the Martens Group.
[1] The industry of ready-made clothes is among the most efficient activities through the high degree of adaptability, the insertion of products on the external markets, cheap and qualified labour force. The textile and ready-meady cloths industry is represented by the activity of several successful companies after 2000.

are joined by companies of recent dynamics, IT and light industry respectively, which form a local network that encompasses all three poles. Practically, the city is « enclosed » by an industrial east-north-west belt, fact which limits the future expansion of other industrial zones, taking into account the dynamics of the other territorial components, especially of the residential area in the northern part.

By its geographical position and also by its urban structure and texture the Galati city will be forced in the forthcoming to rethink, through its public and private structures, the internal industrial function and its spatial distribution.

Bibliography

1.   **Brezeanu, I., Munteanu N.G.** (coord.), 1972, *Județul Galati pe scara timpului*, Întreprinderea Poligrafică Galati.
2.   **Oancea, D.I.** (1973) *Gruparea urban Galati – Braila,* Ed. Academiei, Bucuresti.
3.   **Puscasu, Violeta** (2005) *Judetul Galati / contururi de geografie economica*, Ed. Didactica si Pedagogica, Bucuresti.
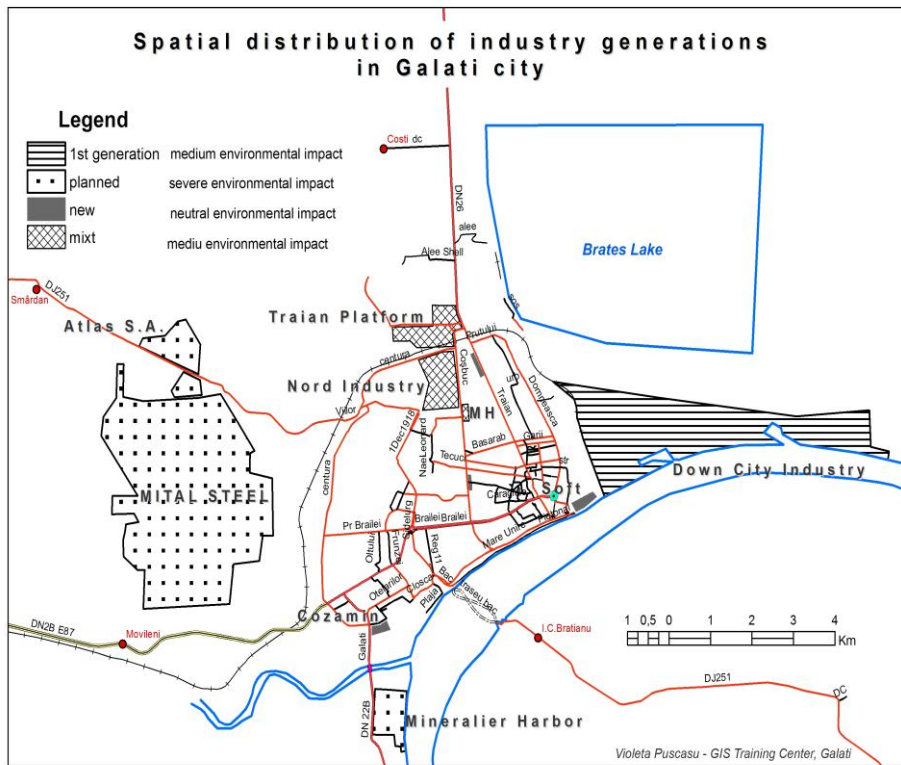4.   ******* (2008) *Raport anual asupra activitatii economice in judetul Galati*, Comisia CJG.

**Figure 1: Spatial distribution of industry generations in Galati
city**

FAMILY ENTREPRENEURSHIP IN THE SME SECTOR

Krystyna Leszczewska, Ph.D[1]
Agnieszka Bitkowska, Ph.D [2]

Abstract

Family businesses play an important role in social and economic life in Poland and in the world. This article characterizes the specificity of family enterprises, and presents the results of studies conducted in Poland on this group of companies.

Keywords: *family business, organizational culture, family entrepreneurship.*

JEL Classification: D13, D21, D23.

1. Introduction

Family businesses are an extremely popular form of property and business in the contemporary world. To a large extent these companies are a source of success and driving force of the developed economies. Due to the value brought to the economic and social life family firms should be as a valuable element of the business sector, whose development should be supported. Also in Poland family firms are one of the largest employers in Poland.

2. The specificity of the family business

Ways of defining family business found in the literature has evolved over the years, but usually it is stressed that the family business is an entity in any legal form in which the majority of ownership and management remain in the hands of one family (See. P.A. Frishkoff, Understanding

---

[1] The State College of Computer Science and Business Administration in Łomża, Poland, e-mail: : k.leszczewska@wp.pl
[2] Faculty of Management and Finance, University of Finance and Management in Warsaw, Poland, e-mail: pbab@wp.pl

Family Business: What is a Family Business?, Oregon State University, Austin Family Business Program, 15 April, 1995; J.H. Chua, J.J. Chrisman, P. Sharma, Defining the family business by behavior. Entrepreneurship Theory and Practice, 1999, Vol. 32 No. 4, s. 19-39; A. Lyman, Customer service: does family ownership make a difference? Family Business Review, 1991, Vol.4 No. 3, s. 303-324; K. Safin, Przedsiębiorstwa rodzinne. Istota i zachowania strategiczne, Wyd. AE we Wrocławiu, Wrocław 2007, s. 8-10)

It suggests that, although the debate on this topic is far from exhausted, there is general agreement that a definition of family business has to incorporate three essential elements: the family, the business and ownership. This was first illustrated by the '3-circle' model of family business developed by Tagiuri & Davis in 1982. The experts support the use of the 3-circle approach when studying the phenomenon of family businesses (Overview of family–business–relevant issues, 2009) (Figure 1).

The essence of the family business is the combination of two components - family and business. This sets the operation of the entity, determines the goals, affects the organizational culture and strategies for action. Family businesses have much in common, which shows their identity, specific values, advantages and problems (Manifest Stowarzyszenia Inicjatywa Firm Rodzinnych, 2008).

A European definition of a 'Family Business' is following: a firm, of any size, is a family business, if (Overview of family–business–relevant issues, 2009):

(1) the majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs;

(2) the majority of decision-making rights are indirect or direct;

(3) at least one representative of the family or kin is formally involved in the governance of the firm;

(4) listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

The literature emphasizes that family businesses because of their specificity are more likely to create wealth for future generations, often tend to invest long term and does not designate the goal of achieving short-term profits, which means that they play an important role in stabilizing the economy (P.D. Hall, 1998).

Moreover, the bargaining power of family businesses is the very high competence of its collaborators, as well as self-motivation and willingness to adhere to the unwritten norms and rules, full of trust and mutual loyalty (Zbiegiem-Maciąg L., 1999)

Family companies throughout the world operate under the same logic and are similar in terms of its constituent elements, processes occurring in them and the barriers and problems. According to this theory family firms show no clear national specificities, and the perceived differences in the way they operate is based upon the level of socioeconomic development of the country or a particular stage of enterprise development (A. Winnicka-Popczyk, W. Popczyk, 2004).

There are lots of typologies of family business. Sułkowski used the firms' objectives, cultural characteristics and management style to draw up the following typology of Polish family firms (Sułkowski Ł., (2004):

- ❑ family game: prevailing are family aims, partnership culture, manager's authority; the company is controlled by several family members but managed by persons from outside; 2.5 % of the enterprises;
- ❑ family possessions: family aims are prevailing, patriarchal culture, manager's authority; the company is controlled mainly by the most senior family member but managed by persons from outside; no such companies were identified;
- ❑ subdued by the family: family aims are prevailing, partnership culture, owner's authority; the company is managed by an informal family council, nepotism occurs; 15 % of the enterprises;
- ❑ possessions of the head of the family: family aims are prevailing, patriarchal culture, owner's authority; the company is owned and managed by the founder or his male descendants, many family members work in the company, authoritarianism and nepotism occurs; 45 % of the companies;

- ❑ family treasure: company aims are prevailing, partnership culture, manager's authority; the company is controlled by many family members and managed by persons from outside, development of the company is a priority; 2.5 % of the companies;
- ❑ economic base of the family: company aims are prevailing, patriarchal culture, manager's authority; the company is controlled by dominating family member(s) and managed by persons from outside, development of the company is a priority; no such companies were identified;
- ❑ family heritage: company aims are prevailing, partnership culture, owner's authority; the company is managed by the owner, company aims are a matter of priority; no such companies were identified;
- ❑ emanation of the owner: company aims are prevailing, patriarchal culture, owner's authority; authoritarian management and control by the owner or his descendants, development of the company is a priority; 35 % of the companies.

A Spanish typology shows that the small, founder-dominated family businesses are of particular relevance and that the complexity of family-business relationships increases with the age of the company (Overview of Family Business Relevant Issues: 2008):

- ❑ Captain ("Capitán"): They represent 24 % of the existing family businesses in Spain. They are usually SMEs strongly controlled by the founder and have little complexity, both in terms of the family and the business. The average age is 28 years old;
- ❑ Emperor ("Emperador"): They represent 19 % of all cases. These enterprises have a large size and both the family and the enterprise are very complex, whereby the person of the founder is central. Their average age is 41 years old;
- ❑ Family Team ("Equipo Familiar"): They represent 22 % of all Spanish family businesses. The enterprise complexity is low, but the family complexity is high ("there is too much family for such a small enterprise"). Their average age is 45 years old;
- ❑ Structured ("Estructurado"): They represent 16 % of all cases. The enterprise complexity is high, but the family complexity is relatively low. The average age is of 37 years old;
- ❑ Corporation ("Corporación"): They represent 18 % of Spanish family businesses. Both the enterprise and the family are very

complex, so they are large enterprises run by a large and extended family. The average age of these enterprises is 61 years old.

The innovation of family businesses is absolutely correlated with commitment and openness to new challenges of their founders who usually built the enterprise from the very foundations. All the capital comes from their personal sources. The businesses engage all their time, eagerness, energy, knowledge, contacts and capabilities in the development and construction of their competitive advantage. The founders treat the business as if it were their own child, another family member whose appropriate formation shall guarantee its good functioning in the future. The business development, the appropriate design thereof will bring about the proper development of such firm. Consulting, common discussion of the issues, search for the best solutions by the family members also enables to look at some problems from various angles. Concentrated on building the firm, the families do not count on quick profits. When the profits eventually appear, they invest them in the business instead of using them for consumption purposes. They focus on studied, long-term actions.

3. Family entrepreneurship in the world

In 2006, the American Family Business Magazine carried out surveys about the largest family businesses in the world. It presented 250 most powerful family businesses from 28 countries of the world whose annual income amounted to a minimum 1.2 billion dollars. (Table 1).

A lot of them operate on their domestic markets, but most run parallel business activity in several countries. (J. Zukowska)

Enterprises from the United States occupy as many as 130 of all the 250 positions on the list of the largest family businesses. France comes right after them with 17 enterprises and Germany with 16. Among the leading 25 businesses, only 7 come from the USA. The case of Korea, where family businesses dominate also is interesting, because only three businesses appeared on the „Global 250 list. (The ranking of 250 most powerful family businesses in the world.)

The following figures constitute another proof of the power and significance of family businesses in the world (Zukowska):
- ❑ 75% European businesses are family businesses;

❑ 25% of the list of 100 largest European businesses are family businesses;

❑ 37% businesses of the Fortune 500 list are family businesses;

❑ 60% public companies in the USA are controlled by family businesses;

❑ family businesses produce on average 55% of GNP;

❑ in most European countries family businesses provide more jobs than other enterprises.

The majority of European SMEs - which constitute the backbone of the European economy - constitute family businesses, while also the majority of family businesses are SMEs. At the same time there exist large, internationally active family businesses. (Graph 3), (Overview of Family Business Relevant Issues: 2008)

From the other point of view, similar to the European economy in general, the family business sector is dominated by SMEs, and particularly by micro enterprises with less than 10 employees.

For Denmark, for example, research shows that all family businesses are SMEs, with about 80 % having less than 25 employees (which correspond to the total average for businesses in Denmark). A very similar result is found for Finland and Ireland where 98 % of family businesses employ less than 50 staff members and in the Netherlands where 97 % of family businesses are SMEs (and the majorities thereof are micro-enterprises with less than 10 employees). In Lithuania, more than 90 % of the family businesses employ up to 9 persons, and the remaining about 10 % constitute small firms with less than 50 employees. At the same time, other data indicates a share of micro-enterprises within the family business population of 2/3 and 6 % being medium-sized firms.

The analyses in 33 European countries covered by the study on hand pinpointed some aspects that can be considered to be specific for family businesses or occur more often in family than in non-family businesses. These major characteristics have been structured and classified into the dimensions shown below (see Graph 4). (Overview of Family Business Relevant Issues: 2008)

The European Commission should continue to promote exchanges of information. Family businesses already benefit from existing EU policies. The European Commission should continue to mainstream family-

business-relevant issues in all its actions, particularly in innovation policy, education and regional policies (highlighting the role family businesses play in stability and long-term growth of regions).

Moreover, there are lots of organisations in many countries (for example, the international Family Business Network, German Arbeitsgemeinschaft Selbständiger Unternehmer, the Spanish Instituto de la Empresa Familia ASMEP French or Italian Associazione Italiana delle azienda Familliari), whose aim is to promote the theme of family businesses

4. Family businesses in the SME sector in Poland - presentation of research results

In the structure of active companies operating in Poland, and thus actually performing the activity, dominate micro enterprises, or firms employing between 1 and 9 employees. In 2007 they accounted for 96% of active companies. Small firms (from 10 to 49 employees) are 2.5% of firms, while less than one percent is medium-sized companies (from 50 to 249 employees). A small part of the total number of firms (0.2%) are large enterprises (employing at least 250 employees (Przedsiębiorczość w Polsce 2009).

The dynamics of changes in the number of small businesses operating in the economy is strong. Survival rate of enterprises in 2008 amounted to 70%. This means that on average 30% of newly created operators leave the market in the short term, a five-year period survive only every third company (GUS data published 23rd July 2007).

Family businesses dominate among the SME sector. Depending on the definition, it is estimated that family businesses in the former Fifteen EU countries and the United States represent from one-third to more than 70% of all entities in the market, produce between 20% and 70% of GDP and employ between 27% to 70% of all workers. Most family businesses operate in the SME sector.

According to research conducted by the PARP family companies in Poland constitute 36% of the SME sector and produce at least 10.4% of Polish GDP. These are mostly micro enterprises (90%). Nearly one in ten (9%). Family-owned company is an entity employing from 10 to 49

employees and only 1 percent belongs to medium-sized companies. The average age of the family business is about 14 years.[1] Most family businesses operate in industries that do not require large financial outlays at the time of establishment. Family businesses dominate in retail (45%) and in industries such as transportation, manufacturing, hospitality.

Another important element in running battles with recession is the external support. Given the importance of family businesses for the economy and popularization of innovation in 2009, Polish Agency for Entrepreneurship Development has launched a project funded by the Operational Program Human Capital: "Family Firms", whose purpose is to develop and disseminate the most effective forms of support to family businesses (FR). The project was to cover at least 300 people from at least 50 family businesses.

During the analysis of the statistics of enterprises operating in Poland, the question was posed: what determines the fact that some companies are in the market and become successful, and other companies disappear? Are family businesses more sustainable and competitive in relation to non-family firms? Is it possible to identify specifics of family firms compared to non-family firms of similar size and business? These research problems were the subject of analysis in empirical research conducted among 103 companies in the sector of SMEs operating in the Podlaskie Voivodship[2] (Figure 4).

The study was conducted in 2009. Of all those surveyed companies, 65 firms identified their company as a family one. 50 family business owners indicated that they are the first generation leading the company, 13 respondents are engaged in a second generation company, a respondent is the third generation leading company, and one respondent represented the

---

[1] The study assumes that a family business is every entity in the sector of micro, small or medium-sized enterprises, of any legal form, registered and operating in Poland, in which: at least two family members are working in this enterprise, at least one family member has a significant impact on the management, family members hold shares in the company, Firmy rodzinne w polskiej gospodarce – szanse i wyzwania, PARP, Warszawa grudzień 2009, s. 15
[2] Study results presented in this article are part of the research work done by the author, Dr. Krystyna Leszczewska in a team headed by prof. dr hab. Romana Sobieckiego within the statutory College of Business Administration of Warsaw School of Economics in 2009 r., " Family businesses - the state of knowledge and success factors of small firms'

fourth generation business owner. In determining the research group, we used the data from the Business Register, the Statistical Office of the Voivodeship and the Chamber of Industry and Commerce.

Among the study sample 52.4% of operators are active in cities with population over 50 thousand residents, 34% in urban areas with less than 50 thousand residents, while 13.6% of businesses are located in the countryside. Among the surveyed firms dominate service (68%) and commercial (45.6%) companies. Only 15.5% of the surveyed companies are of manufacturing profile.

Organizational and legal form of companies surveyed reveals the dominance of the typical for region individual business (64.1% of respondents). Of the companies surveyed 15.5% were partnerships, general partnerships 8.7%, 8.7% limited liability companies. The study population accounted for 25.2% of sole proprietorships, 53.8% - microenterprises. The fewest in the sample were medium-sized enterprises employing 50 - 249 people, they accounted for only 4.9% of the surveyed companies.

Companies covered by the survey operate mostly in the local market (the area of the municipality or county in which the headquarters is located). 32.0% of companies operate in the Podlaskie region, 17.5% of companies are nationwide companies, only 5.8% are companies operating in the international market. The entities operate in the market for a relatively long time - 34.9% of respondents operate more than 10 years, 31.6% of companies operate from 6 to 10 years. Long time operation of the entities in the market suggests that respondents' opinions expressed in the survey are based on long-term experience in doing business.

Family Firms in the study in the vast majority (93.8% response rate) intend to continue business in the next 5 years. Among non-family firms the same declare 86.8% of respondents. Only a small percentage of respondents plan to cease in the near term economic activity (3.1% of those families and 2.6% non-family entities).

Few respondents are not resolved, about future decisions. 41.5% of family businesses and 47.4% of non-family companies plan to increase the scale of operations in the near term. 23.1% of family businesses and 5.3% of non-family firms has no such intentions. Other respondents to the question about plans to expand business replied "I do not know."

Estimated willingness to continue the business does not bind itself specifically to the planning of development, expansion, merger with

another, stronger entity. These points to the recessive nature of the business, or the fear of increased risk associated with conducting business on a larger scale. The vast majority of businesses surveyed (86.2% of family businesses and 78.9% of non-family firms) did not plan to change the organizational and legal forms of business. Only 2.6% of non-family companies surveyed planning to merge with another small body.

None of the family companies participating in the study did not express such intent. 7.9% of the respondents representing the non-family companies and 1.5% of the respondents representing the family ones wish to join a large company operating in the industry. Declaration of accession to the cluster which brings together producers of the industry has made only 2.6% of respondents from non-family firms. Family businesses do not plan such activities.

Searching for answers to the question: "what determines the strength of the company and its survival in the market and allows it to be successful" leads to the direction of finding the relationship between business strategy and its condition. The respondents were posed the question whether the company has a strategy for action and draw up strategic plans?

Strategic vision defines the direction of the company, specifies owners' ideas about its future and helps cope with rapid changes and uncertain economic environment. Research conducted several years ago in the United States showed that over two thirds of the owners of family businesses (69.4%) did not have a definite strategic plan. Only 18.5% of surveyed family businesses and 13.2% of non-family firms responded that the company has set out a strategy for action in the form of a document.

Much more often, respondents said that the company does not have a formal strategy, but it is in the "mind" of the leader of the company (49.2% of family businesses, and 44.7% of non-family firms). Every third respondent said that the company has no strategy; it works according to the intuitive intentions of its owners. The distribution of responses confirms data from other studies and literature that small businesses are generally driven by short-term perspective in action, a big role in their decisions plays the owner's intuition and observation of the current environment

Entrepreneurs asked about the reason for the lack of strategic action plans, mostly answered that they think a small company does not need a

strategic plan. This view was expressed by a larger group of non-family business owners (39.5% indications) than family (29.2% indications). Both the owners of family businesses and non-family stressed that the strategy and strategic plan does not protect against the risk (26.2% and 26.3% response rate).

Almost one fifth of the respondents indicated that they lack time to draw up a strategic plan. Every tenth family entrepreneur believes that he lacks the skills to draw up strategic plans, or that a formalized strategy restricts the freedom to respond to changes that occurred in the business environment. Interestingly seem respondents representing companies who produce formal documents defining the vision and direction of future operations. Family businesses often suggested that the strategy enables more efficient use of available resources (13.8% indications) or let better understand customer needs and improve relations with them (13.8% indications).

Maintaining the company's long term needs to adapt to the changing external environment and identify the strategic directions of activities. The ongoing technological and market changes eliminate many existing products and services. Changes noticed too late cause a decline in revenues and profits. This situation is called a strategic surprise. Entrepreneurs, who declared that they plan to expand their business, were asked the question: which business strategies they will implement.

The most common option, indicated by the family business owners is to search for new markets (40.0% response rate) and sales growth in existing markets (32.3% response rate). Fewer surveyed companies declare to improve existing products and technologies (26.2%) and diversification of activities (9.2% response rate) in the near future. Every tenth family business owner participating in the study intends to focus on the reduction of unit costs or on a specific segment of the market. Distribution of answers given by non-family businesses owners is different from the responses of family businesses owners.

Non-family companies plan to expand sales more often in markets in which they will have worked up to that moment (42.1% indications against 32.3% for non-family firms). It is worth mentioning that far fewer non-family companies than family ones plan to improve products and production technology and reduce in unit costs.

Surveyed entrepreneurs were asked whether their business strategy

plans they would describe as risky or conservative (Table 2). Family businesses, where family members identify their way of life with the development and prosperity of the company, are in favour of consistency and continuation of the project and keeping the family tradition. It determines the conservative nature of strategic behaviour, risk aversion that guarantees the longevity of these entities.

As many as 40.0% of respondents from family enterprises identified the nature of pursued strategy as conservative. In the group of non-family firms such answer was given by 26.3% of respondents. This confirms the observation that non-family companies more frequently guided by the theme of short-term financial gain are willing to accept higher risks in the projects undertaken. Only about 8% of family and non-family businesses assessed the nature of their strategic plans as risky. Many entrepreneurs are not able to give an unequivocal answer to this question.

5. Summary

There is a growing awareness of the importance of family businesses in the economy and social life in Poland an in the world. Many European countries developed systems to support such enterprises.

The analysis shows that the functioning of family businesses shows some specific features compared to non-family firms. Small family businesses can be considered more durable than non-family firms of similar size - the vast majority (93.8% response rate) they intend to continue to operate a business within the next 5 years.

The willingness to continue the business does not bind itself specifically to the planning of development, expansion, merger to increase market share or a stronger entity. Family-owned companies usually build strategies for action for a longer period and are based on networks of personal relationships of the entrepreneur. For small businesses, these relations allow to build the target group of customers, suppliers and subcontractors.

Family businesses, where family members identify their way of life with the development and prosperity of the company, are in favour of consistency and continuation of the project and keeping the family tradition. Strategic vision defines the direction of the company, specifies owners' ideas about its future and helps to cope with rapid changes and

uncertainty of the economic environment. Owners of small family businesses, more often than owners of non-family ones, declared that the company has set out a strategy for action in the form of a document or pursuits an informal strategy created by the leader of the company.

References

1. **Chua J.H., Chrisman J.J., Sharma P**., *Defining the family business by behavior. Entrepreneurship Theory and Practice*, 1999, Vol. 32, No. 4.
2. ESADE & Family Business Knowledge, 2006.
3. Firmy rodzinne w polskiej gospodarce – szanse i wyzwania, PARP, Warszawa grudzień, 2009.
4. **Frishkoff P.A.,** *Understanding Family Business: What is a Family Business?,* Oregon State University, Austin Family Business Program, 15 April, 1995.
5. **Hall P.D.,** *A historical overview of family firms in the United States*, Family Business Review, 1988, No.1.
6. **Jeżak J., Popczyk W., Winnicka-Popczyk A.,** *Przedsiębiorstwo rodzinne. Funkcjonowanie i rozwój,* Difin, Warszawa, 2004.
7. Manifest Stowarzyszenia Inicjatywa Firm Rodzinnych, Biuletyn Stowarzyszenia Inicjatywa Firm Rodzinnych, No. 1/2008.
8. **Lyman A.,** *Customer service: does family ownership make a difference?,* Family Business Review, 1991, Vol.4, No. 3.
9. Overview of family–business–relevant issues: research, networks, policy measures and existing studies, European Commission enterprise and industry directorate-general, November 2009**,** http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/familybusiness/family_business_expert_group_report_en.pdf
10. Overview of Family Business Relevant Issues: 2008, Final Report, Vienna, 2008.
11. **Safin K.,** *Przedsiębiorstwa rodzinne. Istota i zachowania strategiczne*, Wyd. AE we Wrocławiu, Wrocław, 2007.
12. Skuteczne działanie. Badanie przedsiębiorstw rodzinnych 2007/08 przeprowadzone przez PricewaterhouseCoopers, PricewaterhouseCoopers, 2007.
13. **Sułkowski Ł**., *Organizacja a rodzina: Dom Organizatora*, Toruń, 2004.
14. The ranking of 250 most powerful family businesses in the world. Family Business Magazine, 2/2006, Family Business Publishing Company, Philadelphia.

15. **Zbiegień-Maciąg L.,** *Kultura w organizacji. Identyfikacja kultury znanych firm*, PWN, Warszawa, 1999.
16. **Żukowska J.,** *Innovation Of Family Businesses Based On The Example Of The Clothing Sector*, http://firmyrodzinne.pl/download/20090623TNOIK_innowacyjnosc_fir m_rodzinnych-ang.pdf
17. **Zocchi V.,** *The role of communication in the intergenerational transfer of family-run small and medium firms*, in Concepts of management. New trends & challenges in management, E. Weiss, M. Godlewska, A. Bitkowska (red.), Vizja Press &IT, Warszawa, 2008.

Table 1: The ranking of 50 most powerful family businesses in the world

1. Wal-Mart Stores	11. Hyundai Motor	21. Motorola	31. Karstadt Quelle 32.	41. General Dynamics
2. Ford Motor Co.	12. Koch Industries	22. Viacom	Michelin	42. Anheuser-Busch Cos.
3. Samsung	13. Robert Bosch GmbH	23. Novartis Group 24.	33. Publix Super Markets	43. Cathay Life Insurance
4. LG Group		Tyson Foods	34.	
5. Carrefour Group	14. SCH (Banco	25. Bouygues	Bombardier	44. Magna
6. Fiat Group	Santander	26. Roche	35. Mars	International
7. Ifi Istituto	Central	Group	36. L'Oréal	45. Otto
Finanziario	Hispano	27.	37. Lagardère	Group
Industriale	S.A.)	Bertelsmann	38. Gap	46. Comcast
S.p.A.	15. ALDI	28.	39. LVMH	47. Sodexho
8. PSA	Group	Weyerhaeuser	Moët	Alliance
Peugeot	16. Auchan	Co.	Hennessy	48. Winn-
Citroën S.A.	Group	29. Loew's	Louis Vuitton	Dixie Stores
9. Cargill Inc.	17. Pinault-	30. News		49. Power
10. BMW	Printemps	Corp.	40. Groupe	Corporation
(Bayerische	Redoute		Danone	of Canada
Motoren	18. Ito-			50. Ikea
Werke AG)	Yokado			
	19. Tengelmann Group			
	20. J Sainsbury			

Source: The ranking of 250 most powerful family businesses in the world. Family Business Magazine, 2/2006, Family Business Publishing Company, Philadelphia

Table 2 The planned business strategies*

Specification	Total Enterprises	Family businesses	Non-family enterprises
Sales growth in existing markets	35,9	32,3	42,1
Searching for new markets	38,8	40,0	36,8
Upgrading existing products and technologies	21,4	26,2	13,2
Diversification of activities	9,7	9,2	10,5
Focusing on a specific segment of the market	7,8	10,8	2,6
Focusing on the reduction of unit costs	7,8	10,8	2,6

Source: own research
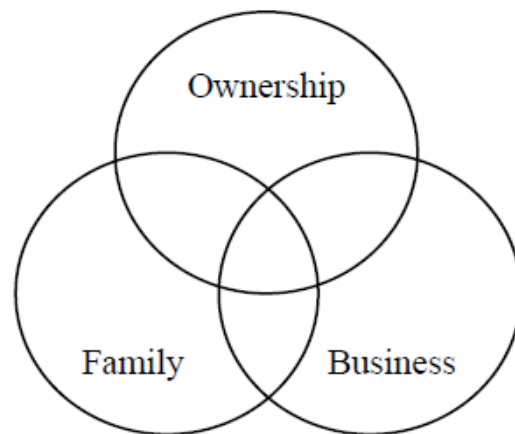* Respondents could indicate more than one strategy

Figure 1:"Circle" model of family business
Source: Overview of family–business–relevant issues: research, networks, policy measures and existing studies, European Commission enterprise and industry directorate-general, November 2009.

**Figure 2: Size Class Considerations of the European Economy and the
European Family Business Sector**

Source: Overview of family–business–relevant issues: research,
networks, policy measures and existing studies, European Commission
enterprise and industry directorate-general, November 2009.

Figure 3 Main Specific Characteristics of Family Businesses

Source: Overview of family–business–relevant issues: research, networks, policy measures and existing studies, European Commission enterprise and industry directorate-general, November 2009.
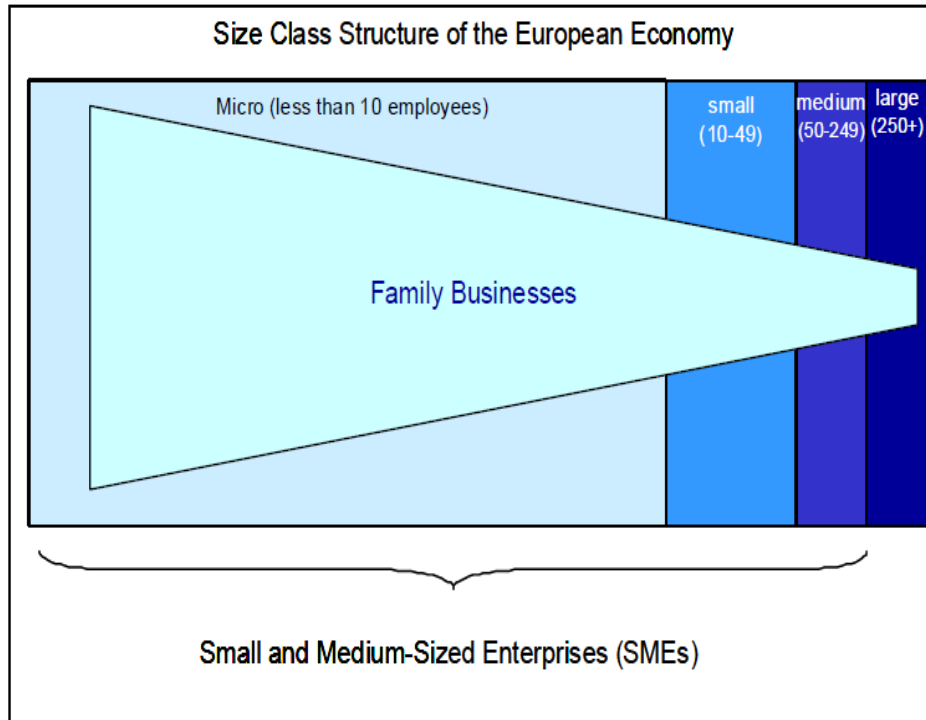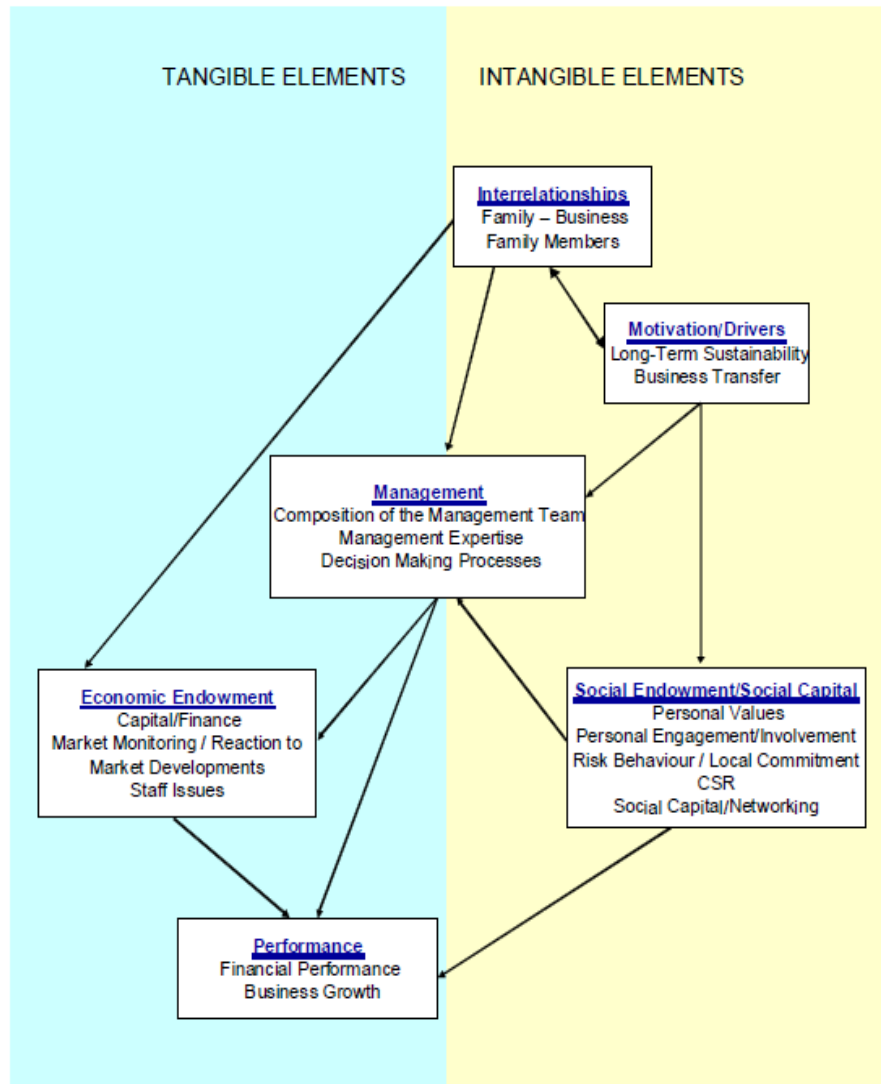
Voivodships

- dolnośląskie
- kujawsko-pomorskie
- lubelskie
- lubuskie
- łódzkie
- małopolskie
- mazowieckie
- opolskie
- podkarpackie
- podlaskie
- pomorskie
- śląskie
- świętokrzyskie
- warmińsko-mazurskie
- wielkopolskie
- zachodniopomorskie

Figure 4: Voivodship in Poland

Source: Central Statistical Office of Poland, Warsaw, http://www.stat.gov.pl/gus/5840_5961_PLK_HTML.htm

DIFFICULTIES FOR ROMANIA IN THE PROCESS OF IMPLEMENTATION OF THE REGIONAL OPERATIONAL PROGRAMMES. CASE STUDY: SOUTH-EAST REGIONAL DEVELOPMENT

Ph.D. Florin Tudor[1]

1. **Introduction**
2. **Absorption of EU Funds**
3. **Cohesion Policy 2007-2013 in Romania**
4. **Regional Operational Programme 2007-2013 in Romania**
5. **Regional Operational Programme - managed by the Regional Development Agency South East**
6. **Conclusions**

Abstract:
EU funds are treated as a unique opportunity for new Member States to accelerate the process of catching up with EU standards of living. Unfortunately, Romania cannot boast with notable performances in the absorption of EU funds. According to the latest data provided by the Authority for Structural Instruments (ACIS) at the end of the semester the absorption reached nearly 9% in relation to the allocation for 2007-2010. This analysis aims to identify the difficulties faced by beneficiaries in the implementation of regional operational programs at the level of the regions of development and setting priorities to overcome them.

Keywords: *structural instruments, absorption, cohesion policy, strategic planning, decentralization.*

JEL Classification: P48, R11, K34

[1] Ph.D.Lecturer at Dunarea de Jos University Galatz, Chancellor of the Faculty of Legal, Social and Political Sciences Faculty, florinavo@yahoo.com

1.   Introduction

This study represents in a concise manner an analysis of the status of implementation of regional operational programs, and their contribution to achieve the priorities set by the National Strategic Reference Framework 2007-2013, to the implementation of cohesion policy objectives set out in the Community Strategic Guidelines for Cohesion and objectives set by other packages, such as the European Economic Recovery Plan.

The analysis describes a number of socio-economic relevant developments since the time of development of the programming documents and their impact on the strategy approved, including capturing the economic and financial crisis effects on the implementation of structural instruments.

Also, the management of the structural instruments are presented alongside regional beneficiaries of these funds as well as the solutions set up to be implemented by the actual authorities with a view to overcome difficulties and accelerate absorption.

2.   Absorption of EU Funds

For 2007-2013, the Structural and Cohesion Funds, programs for the new Member States amounted to a total of EUR 173.9 billion (2008 prices). Because past experience has shown payments typically spread over two more years, the proposed annual payment profile in terms of GDP runs up to 2015 (Table 1).

Table 1: Payment profile for new Member States, 2007-2015

% of GDP	2007	2013	2015
Bulgaria	1.1	2.2	1.9
CZ	1.2	1.9	1.7
Estonia	1.1	1.9	1.6
Cyprus	0.2	0.4	0.4
Latvia	1.0	2.4	2.0
Lithuania	1.1	2.2	1.9
Hungary	1.0	2.9	2.6
Malta	0.5	2.6	2.4
Poland	1.1	2.2	1.9
Romania	0.7	1.5	1.3
Slovenia	0.6	0.9	0.8
Slovakia	1.1	1.9	1.6
All NMS	1.0	2.0	1.8

Source: Commission services
European Commission, *Five years of an enlarged EU Economic achievements and challenges*, Brussels, 2009, p. 209.

The fields of intervention cover a wide range of policy programmes. Infrastructure investment receives the largest share of funds, more than 60% of the total budget for most new Member States, while investments in human capital and R&D are usually the second or third largest entries (15 and 10 % respectively).

The essential precondition for the EU cohesion and structural funds to achieve their objective of enhancing real convergence across EU countries and regions is that they are smoothly absorbed by their beneficiaries. As far as the funds for the 2000-2006 programming period are concerned (Table 2), the absorption of Structural Funds by both the new and old Member States has been very similar (the rate of absorption being 94% for the ten countries that joined in 2004, as against 91% for the old Member States). By contrast, as compared to the four old cohesion countries (Greece, Ireland, Portugal and Spain), the pace of spending from the Cohesion Fund and ISPA was fairly modest for most new Member States (52% versus 73%, Table 2).

Table 2: Absorption rates in programming period 2000-2006

	Structural Funds	Cohesion Fund and ISPA		
	Absorption Rate (%)	Absorption Rate (%)	Amount spent per year 2004-2008 (mio Euro)	Amount to be spent per year 2008-2012 (2) (mio Euro)
BG (1)	na	40	58	132
CZ	91	66	141	104
EE	95	68	51	34
CY	85	59	6	6
LV	95	71	90	51
LT	95	68	98	67
HU	94	55	133	165
MT	95	80	4	1
PL	94	54	499	651
RO (1)	na	52	181	248
SI	94	64	28	23
SK	95	70	96	57
NMS	94	57	1 436	1 539
OMS	91			
OMS (3)		73	1 631	1 254

Source: Commission services
European Commission - Five years of an enlarged EU Economic achievements and challenges, Brussels, 2009, p. 203.

Note: (1) As Bulgaria and Romania joined in 2007, data refer to ISPA only; (2) assuming a full absorption by the end of 2010 of the 2000- 2006 CF programming; (3) Only Greece, Ireland, Portugal and Spain. Situation as at February 2009.

This new Member States poor performance suggests that the speed of spending will have to be increased for Bulgaria, Hungary, Poland and Romania, in the next years, so that, by the end of 2012, the deadline for the 2000-2006 Cohesion Fund resources to be paid to Member States and full absorption costing shall be achieved[1].

It must be stressed that the Member States tend to significantly accelerate their rate of absorption towards the end of the period in which resources from a particular tranche of funds can be claimed. Indeed, this phenomenon has already occurred for the 2004-2006 Structural Funds, and

---

[1] For details see European Commission, *Five Years Of An Enlarged EU Economic Achievements and Challenges*, Brussels, 2009, p. 207 et seq.

has shown a considerable increase every year since the resources became available (Graph 1).

Graph 1: Structural funds (ERDF and ESF): absorption in 2004-2008
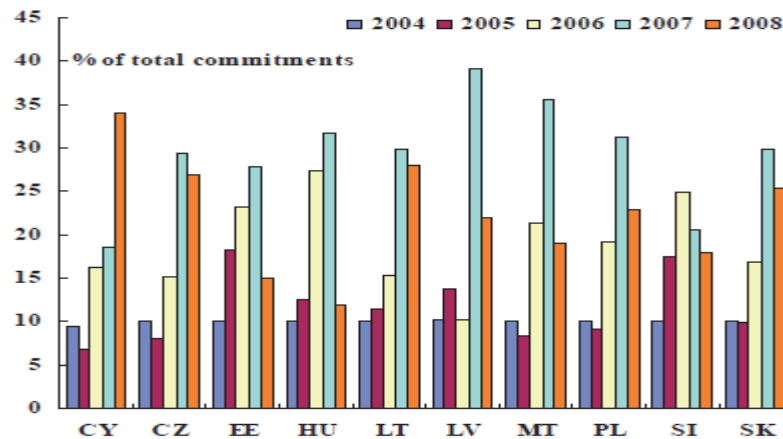
Source: Commission services
European Commission , *Five years of an enlarged EU Economic achievements and challenges*, Brussels, 2009, p. 203.

3. Cohesion Policy 2007-2013 in Romania

In 2007-2013 the European Union provides financial assistance grant to Romania through three structural instruments: the European Social Fund (ESF), European Regional Development Fund (ERDF) and Cohesion Fund (CF).

Allocation of the European Union enjoyed by Romania through these instruments is 19.67 billion euros, plus an estimated national co-financing 5.6 billion. From this allocation, the amount of 19.2 billion euros is for the Convergence Objective, through seven operational programs:

- Sectorial Operational Programme Increase of Economic Competitiveness;
- Sectorial Operational Programme Environment;
- Sectorial Operational Programme Transport;
- Regional Operational Programme;
- Human Resources Development Operational Programme;
- Operational Programme Administrative Capacity Development;

- Technical Assistance Program.

Strategic Programming of structural and cohesion funds was conducted by the National Strategic Reference Framework, based on strategic priorities set out in the National Development Plan 2007-2013.

NSRF strategy implementation is accomplished through the operational programs mentioned.

Regarding the institutional capacity of management of structural instruments, the process of preparation for its development began in 2004, materializing in establishing the institutional framework for coordination, implementation and management of structural instruments, designated as separate structures within the ministries and agencies, on the basis experience in managing funds. Also, were created internal operating mechanisms of the structures, aiming to ensure an effective and rigorous implementation of the funds.

Ministry of Finance, through The Authority for Structural Instruments (ACIS) fulfils the role of coordinator of programming and management of structural instruments.

The coordination mechanism established by this act allows inter-institutional relations to all levels as well as making political, technical and management decisions - the execution.

Institutional system created was assessed by the Audit Commission through missions carried out in 2008-2009, which concluded with the accreditation of management and control systems designed for each of the seven the operational programs, thus attesting the compliance of the implementing procedures with the European rules and standards.

Romania in the first stage of using structural instruments, which means a slower evolution in the early years, followed by a rapid increase in absorption levels increase while advancing in the implementation cycle.

Romania cannot boast with notable performances in the absorption of EU funds. The latest data provided by the Authority for Structural Instruments (ACIS) at the end of March reached for that 8.22% in relation to the allocation for 2007-2010.

In early April, it released an interim report on progress implementing the EU cohesion policy and the implementation of the operational programs for 2007-2013 in the Member States.

Thus, throughout the Union, until now, the reported volume of selected projects is 93.4 billion, representing over 27% of the available
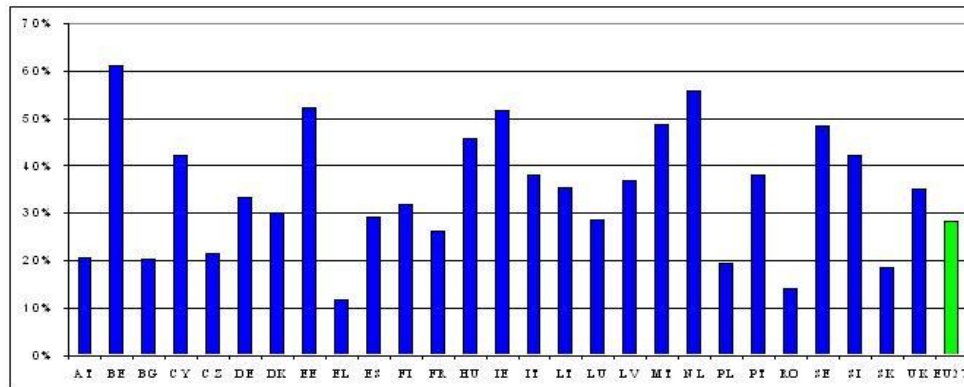
resources for the EU.

Through this indicator the breakdown of the states places Romania on the penultimate place with a rate of only 14.1%, the only country with a weaker result, about 12%, being Greece.

Graph 1: Cumulative rates reported for the selection of projects per Member States

Source: European Commission Report COM (2010) 110 final, *Cohesion Policy: Strategic Report 2010 on the implementation of ESA programs 2007-2013* (2010) 360, p.8.

Table 3: Progress in achieving the Lisbon priorities identified for 2007-2013, based on objectives.

	Identified Lisbon			Other priorities identified		
	Planned EU investment (EUR billion)	Funds allocated to projects selected (EUR bn)	%	Planned EU investment (EUR billion)	Funds allocated to projects selected (EUR bn)	%
I.Convergence						
Attractive places for investment and employment 65,883	16,235	**24,6%**		76,579	20,340	**26,6%**
Improving knowledge and innovation for growth	64,599	19,727	**30,5%**			

More and better jobs	42,860	11,020	**25,7%**	3,878	0,697	**18,0%**
National Identification	7,972	3,262	**40,9%**			
Territorial Dimension				11,095	3,036	**27,4%**
	181,315	**50,244**	**27,7%**	**91,552**	**24,074**	**26,6%**
II Regional Competitiveness and Employment						
Attractive places for investment and employment	2,531	0,827	**32,7%**	7,032	1,695	**24,1%**
Improving knowledge and innovation for growth	18,601	4,740	**25,5%**			
More and better jobs	21,614	6,318	**29,2%**	0,463	0,076	**16,3%**
National Identification	0,714	0,193	**27,0%**			
Territorial Dimension				2,533	0,556	**21,9%**
	43,460	**12,078**	**27,8%**	**10,027**	**2,327**	**23,2%**
III. European Territorial Cooperation						
Attractive places for investment and employment	0,947	0,168	**17,7%**	2,913	0,745	**25,6%**
Improving knowledge and innovation for growth	1,971	0,462	**23,4%**			
More and better jobs	0,540	0,079	**14,6%**	0,505	0,137	**27,2%**
National Identification				0,482	0,138	**28,7%**
Territorial Dimension	**3,458**	**0,709**	**20,5%**	**3,900**	**1,020**	**26,9%**
Attractive				10,594	2,993	**28,3%**

places for investment and employment						
Total	**228,233**	**63,031**	**27,6%**	**116,072**	**30,413**	**26,1%**

Source: European Commission Report COM (2010) 110 final, *Cohesion Policy: Strategic Report 2010 on the implementation of ESA programs 2007-2013* (2010) 360, p.8.


Many Member States now confirm that the discipline imposed by the requirement of "identification" has improved the quality and concentration of programming. The data reported by the Member States also allow analysis of relative progress between unidentified and identified priorities for each Member State. Charts 3 and 4 show the relative progress in identifying the objectives of convergence, respectively, RCE (Regional Competitiveness and Employment). The graph is presented for the purposes of financial importance absolute decrease (from left to right).

Graph 3: Identification Lisbon - Convergence Objective: The volume of selected projects as a percentage of totals
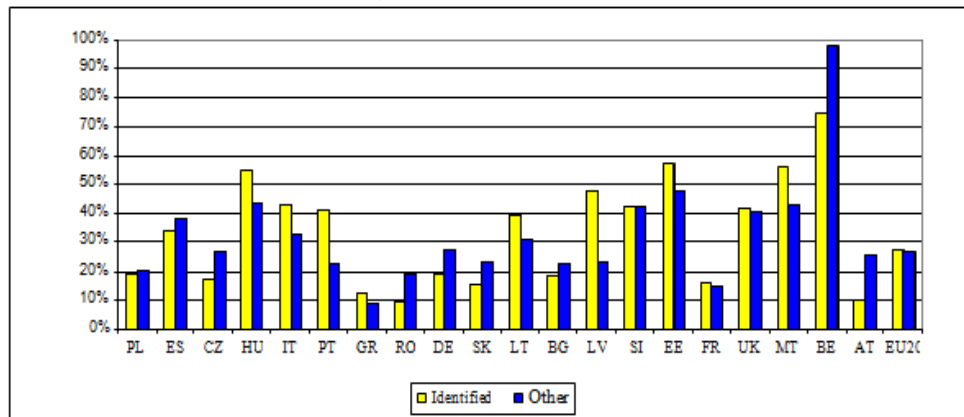
Source: European Commission Report COM (2010) 110 final, *Cohesion Policy: Strategic Report 2010 on the implementation of ESA programs 2007-2013* (2010) 360, p.10.

Graph 4: Lisbon earmarking - Regional Competitiveness and Employment volume as a percentage of total projects selected
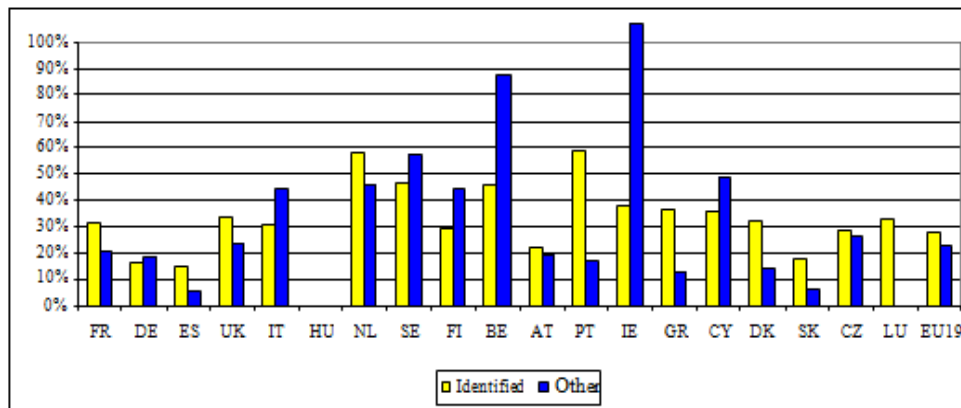
Source: European Commission Report COM (2010) 110 final, *Cohesion Policy: Strategic Report 2010 on the implementation of ESA programs 2007-2013* (2010) 360, p.10.

4. Regional Operational Programme 2007-2013 in Romania

As stated earlier, in late March 2010 the absorption of EU funds was 8.22%. Note that the data submitted by the EC does not indicate the actual absorption of structural funds and cohesion, the only indicator which precisely quantifies it is represented by the relationship between the actual payments paid to the beneficiaries and the allocation available for a certain period.

The operational program with the highest degree by absorption is the Regional Operational Program (ROP) with 15.14% and the total payments over 90 million lei, which is, in fact, the only program that showed a significant trend in March.

The National Development Plan 2007-2013 in Romania reveals a professional analysis of regional disparities. Thus, the document points out:

- pronounced imbalance in development between East and West;
- sharp underdeveloped regions in the north-eastern border with Moldova and those from southern border with Bulgaria;
- intra-county imbalance;
- economic decline of small and medium-sized cities;

- loss mono-industrial areas and lack of restructuring in the field;
- lack of means for retraining.

Share of GDP per inhabitant, which measures the proportion of the similar index, average, the EU is 19.1% for North-Eastern region and 35.3% for Bucharest-Ilfov region, indicating a reduced convergence with the EU.

The European Commission adopted the Regional Operational Programme on 11 July 2007. The ROP is financing the structural funds allocated of 3.72 billion, plus Romania's contribution of 880 million euros. The amount of funds allocated by the ROP represents 19% of the total funds allocated to Romania for the programming period 2007-2013.

Funds are allocated to different regions, depending on the degree of development and in close coordination with actions under other operational programs to ensure a balanced development of all regions of the country.

The Regional Operational Programme will be implemented through a coordinated central management, with support from the Regional Development Agencies and the Department of Tourism from the Ministry of Small and Medium Enterprises, Commerce, Tourism and Liberal Professions.

The eight Regional Development Agencies (RDAs) have been designated Intermediate Bodies for the implementation of the ROP and are responsible for implementing regional ROP.

ROP 2007-2013 strategic objective is to support sustainable economic and social development and balanced territorial development of all regions of Romania, according to their specific needs, with emphasis on supporting sustainable development of cities - urban growth poles, improving business environment and basic infrastructure, to make Romania's regions, particularly the least developed, attractive places to work, life and leisure.

To achieve the overall objective of the ROP, the strategy is articulated on more specific objectives, namely:

- increased economic and social role of urban centres, a polycentric approach to foster a more balanced development of the Regions;
- improving accessibility in regions and, in particularly, the accessibility to urban centers and their links with surrounding areas;
- improve the quality of social infrastructure of the regions;
- increasing the competitiveness of regions as business locations;
- increase the contribution of tourism to develop regions.

ROP will lead, ultimately to the decrease of the disparities between regions, between urban and rural areas, between urban canters and adjacent areas and within cities, between areas attractive and unattractive to investors, through a better use of regional synergies.

5.   Regional Operational Programme - managed by the Regional Development Agency South East

To fund the ROP during the program 2007-2013 about 4.4 billion euros have been allocated, of which 3.726 billion euros (84%) is the European Development Fund (ERDF), representing 19.4% from the total Structural and Cohesion Funds allocated for the Convergence Objective financing in Romania. The remaining funds come from Romanian public funds (14%) and private funds. The total financial allocation for the South East during 2007 - 2013 is EUR 563.4 million, representing approximately 13.25% of the total funding allocated to the ROP. This allocation of funds has a role and voice guidance, as funds can be reallocated from one region to another, depending on absorption capacity.

Status of implementation of Regional Operational Programme 2007-2013 - South-East Development Region, on 17 December 2010 is as follows[1]:

132 contracts grant were signed, the amount requested is over 246 million euros, of which:

- Key areas of intervention 2.1 Rehabilitation and upgrading of county roads, city streets, including construction / rehabilitation of ring roads - 15 contracts, the total amount requested for business 138.65 million EUR;

- Key area of intervention 3.1 Rehabilitation, modernization and equipping of health services - 8 contracts worth a total of 18.31 million euros requested;

-    Key areas of intervention 3.2. Modernization and equipping of social services infrastructure - 11 projects were contracted, the amount requested 6.55 million EUR;

---

[1] See RDA, *Report South East Regional Operational Programme 2007-2013 Status of implementation* - South-East Development Region, on 17 December 2010.

- Key areas of intervention 3.3 Improving the equipment has operational bases for interventions in emergency situations - one contract worth 9.61 million requested of euro;

- Area of Intervention 3.4 Rehabilitation, modernization and equipping of educational development and university continuing vocational training infrastructure - 26 projects were contracted, the requested amount was EUR 20.36 million;

- Key areas of intervention 4.1. Sustainable development of support structures of regional and local businesses - 1 contract worth 0.36 million requested;

- Area of Intervention 4.3 - Support the development of micro - 48 contracts the requested amount was EUR 4.67 million euros;

- Key areas of intervention 5.1 Restoration and sustainable valorisation of cultural heritage and setting up / modernization of related infrastructure - 8 contracts worth a total of 27.56 million euros requested;

- Key areas of intervention 5.2. Creation, development, upgrading of infrastructure for the sustainable natural resources and improve the quality of tourism services - 14 contracts, worth a total of 20.03 million euros requested.

Absorption rate (ERDF and state budget funds paid to the AM POR) is over 16% of the amount outstanding at the regional level.

The relatively slow rates of absorption immediately after accession can be explained in part by the natural project cycle: it takes time to prepare investment programmes and project proposals, organize public tender procedures and start up the selected projects. The accelerating absorption profile may also reflect a slow but steady building up of the administrative and financial capacities of Member States[1].

The analysis finds that the funds attracted investment mix. Spending on infrastructure as well as on training and education appears generally productive, even though the returns on education are likely to take a considerable time to materialize. On the other hand, measures supporting cultural, sport-related or social housing projects generally have little impact on growth. Moreover, certain types of interventions, such as State aid for large companies, have often been found to be

---

[1] See European Commission, *Five years of an enlarged EU Economic achievements and challenges*, Brusels, 2009, pp. 207-208.

counterproductive or may potentially involve huge deadweight losses and should be made only in special and properly justified cases[1].

Fourth, the role of the macroeconomic policy is crucial to creating a stable framework for the economic development of Member States.

Stable macroeconomic conditions have a direct positive impact on economic agents by reducing the economic uncertainty that these agents face.

Failure to fulfil the objective of developing the SME sector due to the large administrative burden, and the lack of the judiciary quality, make the legal and fiscal business environment less uncertain. One of the most important reasons behind a slow pace of EU fund absorption by Romania is the global financial and economic crisis.

Economic and financial crisis that began in 2008 changed the economic landscape of the EU. In 2006 and 2007, when they prepared national strategic reference frameworks, the economic growth was around 3%, while from the summer of 2008, GDP contracted sharply, initially as a result of financial crisis. Since then, employment has fallen and unemployment rose higher. In addition, reduced consumption and investment are substantial and debt is higher in many Member States.

In 2008, the GDP growth in the EU was already very low (0.8%), and in 2009 was an average decrease of over 4% was registered. The recession effects felt particularly strong in the Baltic States, with negative rates between 14% and 18%. Only Poland enjoyed economic growth in 2009 (1.2%). However, projections showed the first signs of economic recovery. Although, a slow growth in the EU is registered in 2010 and all the Member States shall also register a GDP growth in 2011.

In December 2009, unemployment was 9.6% versus 8.2% in December 2008[2]. Some countries have been particularly affected by the crisis. Unemployment has doubled, largely in the last year in Ireland and Spain and has tripled in the Baltic States. Latvia (22.8%) and Spain (18.8%) had the highest rates in late 2009. It is likely that regional disparities in the labour market have increased as a result of the crisis. Given that unemployment is likely to remain high for a while, there is an inherent risk of long-term unemployment and social exclusion.

---

[1] Idem, p. 210.
[2] Unemployment rates in December 2009, seasonally adjusted, according to Eurostat.

The economic downturn triggered also an acute deterioration in the business climate and consumer confidence. Total investments decreased by approximately 15% in 2009 compared with the previous year, while consumption decreased by about 3%. Exports of goods and services fell dramatically by almost 20%, and FDI declined in several countries in Central and Eastern Europe[1]. Public spending increased, playing a countercyclical role. This increase was due primarily to the protection offered by the national welfare and incentive plans adopted by many Member States in the European economic recovery plan. It is likely that the combined effect of decreasing unemployment and increasing social expenditures vary substantially across Member States[2].

All this contributed to an unprecedented downturn in the South-East economic development area. The analysis operation registered in Table 4 shows that most of the counties belonging to the South-East area development program have been neglected. The large number of operators has been forced to ceases the activity is another factor that weighed heavily on the analysis of the evaluators regarding the attractiveness of the development area, the unfavourable business environment for the development of horizontal investment.

---

[1] Hungary, Latvia, Slovakia
[2] **European Commission Report** COM (2010) 110 final, *Cohesion Policy: Strategic Report 2010 on the implementation of ESA programs 2007-2013* (2010) 360, p. 4.

Table 4 - Operations performed on the categories, registries in the period December 1990 - November 2010, per total country and county, all counties share of the country

County	Total operations performed		of which:					
			Registrations		Entries		Strike-off	
	No	%	No	%	No	%	No	%
0	1	2	3	4	5	6	7	8
Total ROMÂNIA	14494151	100,0	2077733	100,0	11612311	100,0	804107	100,0
ALBA	219593	1,5	34857	1,7	173199	1,5	11537	1,4
ARAD	342202	2,4	50463	2,4	271498	2,3	20241	2,5
ARGES	350544	2,4	53185	2,6	281318	2,4	16041	2,0
BACAU	337128	2,3	51797	2,5	263140	2,3	22191	2,8
BIHOR	439658	3,0	64509	3,1	353376	3,0	21773	2,7
BISTRITA-NASAUD	175861	1,2	26955	1,3	138625	1,2	10281	1,3
BOTOSANI	136039	0,9	25525	1,2	99675	0,9	10839	1,3
BRASOV	564149	3,9	64230	3,1	478132	4,1	21787	2,7
BRAILA	223374	1,5	29033	1,4	185923	1,6	8418	1,0
BUZAU	250887	1,7	37400	1,8	197411	1,7	16076	2,0
CARAS-SEVERIN	168556	1,2	25129	1,2	131594	1,1	11833	1,5
CALARASI	132759	0,9	20945	1,0	102924	0,9	8890	1,1
CLUJ	641420	4,4	95474	4,6	515413	4,4	30533	3,8
CONSTANTA	618444	4,3	85476	4,1	497101	4,3	35867	4,5
COVASNA	124886	0,9	17765	0,9	100190	0,9	6931	0,9
DAMBOVITA	209023	1,4	38901	1,9	151376	1,3	18746	2,3
DOLJ	389174	2,7	54727	2,6	313040	2,7	21407	2,7
GALATI	368054	2,5	49326	2,4	298451	2,6	20277	2,5
GIURGIU	114386	0,8	17461	0,8	89590	0,8	7335	0,9
GORJ	221475	1,5	24547	1,2	187179	1,6	9749	1,2
HARGHITA	217717	1,5	32600	1,6	174528	1,5	10589	1,3
HUNEDOARA	291210	2,0	42428	2,0	231028	2,0	17754	2,2
IALOMITA	134088	0,9	19281	0,9	105158	0,9	9649	1,2
IASI	479172	3,3	69018	3,3	386782	3,3	23372	2,9
MARAMURES	308685	2,1	52437	2,5	233114	2,0	23134	2,9
MEHEDINTI	147356	1,0	23283	1,1	113606	1,0	10467	1,3
MURES	401284	2,8	51753	2,5	328622	2,8	20909	2,6
NEAMT	308488	2,1	44112	2,1	244377	2,1	19999	2,5
OLT	173578	1,2	28728	1,4	132348	1,1	12502	1,6
PRAHOVA	490241	3,4	69222	3,3	393938	3,4	27081	3,4
SALAJ	128977	0,9	20966	1,0	99617	0,9	8394	1,0
SATU MARE	225823	1,6	35388	1,7	175567	1,5	14868	1,8
SIBIU	315800	2,2	40883	2,0	260133	2,2	14784	1,8
SUCEAVA	343142	2,4	51371	2,5	266906	2,3	24865	3,1
TELEORMAN	155281	1,1	24071	1,2	122175	1,1	9035	1,1
TIMIS	483653	3,3	73439	3,5	385513	3,3	24701	3,1
TULCEA	171378	1,2	21111	1,0	140987	1,2	9280	1,2
VASLUI	180945	1,2	25753	1,2	142616	1,2	12576	1,6
VALCEA	222157	1,5	33462	1,6	173333	1,5	15362	1,9
VRANCEA	177600	1,2	25709	1,2	144017	1,2	7874	1,0
MUN. BUCURESTI	2874202	19,8	384350	18,5	2344065	20,2	145787	18,1
ILFOV	235762	1,6	40663	2,0	184726	1,6	10373	1,3

*** Under 0.01%

Source: Report of the National Trade Register Office - *Operations performed per categories, registries in the period December 1990 - November 2010, per total country and county, each country share per county.*

6. Conclusions

In the context of the overall strategy to maintain relevance in Romania on the implementation of structural and cohesion funds, an absolute priority for the Romanian Government is improving the access and deployment to accelerate absorption, to ensure a quick infusion by capital into the economy in order to minimize the effects of economic crisis, to facilitate the essential investment, with impact on national, regional and local levels.

Local and regional authorities have the task that together with Regional Development Agency might carry out extensive publicity campaigns of the public calls organizing workshops showing explicitly the advantages and disadvantages of attracting European funds and assistance free of the traders in writing grant projects. Moreover, we believe it is worrying that there is an over-concentration of the investments in the capital and developed areas to the detriment of the poor, with high potential medium and on a long term.

The analysis of implemented projects and funding applications for development in south-eastern region, it appears that local authorities do not even do enough projects for local development programs. There are at least two levels of analysis.

On one side, a cause can be a lack of local information, inefficient staff in this field, limited logistics, indifferent administrators leading to low absorption capacity. On the other hand, lack of managerial capacity forecast by the central authorities, inefficiency of the teams in the drafting project, lack of vision and adaptability are likely to lead to long-term losses.

Last but not least we believe that urgent changes must be made regarding the amendment of laws that would allow Romania to fully respect the principle of local financial autonomy as expressions of decentralization. Currently, local budgets are built on local contributions, fees and local taxes, half from VAT collected and 62% from payroll taxes. Unfortunately, budgets are balanced on two principles: solidarity with the poorer areas and stimulating greater development potential. In recent years there have been tensions between the local managers of the public money more developed and the authority counties which redistribute funds. In such circumstances, we believe that the central authority as management of funds, it is not yet ready for an efficient distribution for the money that will

come from the EU in the period 2007-2014.

References:

1. **European Commission**, *Five years of an enlarged EU Economic achievements and challenges*, Brussels, 2009.
2. **European Commission,** *Report COM (2010) 110 final "Cohesion Policy: Strategic Report 2010 on the implementation of ESA programs 2007-2013* (2010) 360.
3. **RDA,** *South East Regional Operational Programme 2007-2013 Status of implementation*, South-East Development Region, on 17 December 2010.
4. **National Trade Register Office**, *Operations performed per categories, registries in the period of December 1990 - November 2010, per total country and county, each county share per country.*

AFRICA AND ASIA IN POST-COLD WAR SOUTH-SOUTH REGIONAL ASSERTION

Pierre Chabal[1]

Abstract

This article was written on the occasion of a seminar in Dakar on International Relations 50 years after Independence, co-organised by the Cheikh Anta Diop University of Dakar with the participation of numerous colleagues from the St Louis Gaston Berger University and by Le Havre University, where I teach and carry out my work. I owe both intellectual and personal feelings of gratitude to all colleagues there as well as to all my colleagues in new partner countries, of which Romania is naturally one, in the wake of the end of the cold war. The end of the cold war is not just a historical point on a chronological scale; it is also a human experience, which I have intended and still do to live to the full.

Keywords: *delayed 'post-war' effect, regional assertion, political forgetfulness.*

JEL Classification: R11, R13, R19.

The topic of this article is 'South-South regional assertion'. It is, for the purpose of this article, illustrated with the hypothetical suggestion that both Africa and Asia have come a long way in this assertion. The timeframe of such an analysis needs to be specified but, naturally, what comes to mind are both the 50 years of independence in Africa and the 20 years elapsed since the end of the cold war in Asia. That being said, still on this particular illustration among many possible other illustrations drawn from the world regions at large, two further framework points need to be made clear.

The delayed 'post-war' effect. There seems to exist a constant trend in regional assertions. Dramatic and post-traumatic circumstances are conducive to major ruptures: post WW-II in Europe; post-independence in Latin-America; post cold war in Asia. In Africa, the coincidence of independence/cold war seems to have delayed such ruptures. The Economic Community of West African States (ECOWAS) was founded in

---

[1] **Dr. Pierre Chabal**, Universite du Havre, Expert of the Institut de Relations Internationales et Strategiques Paris, pierre.chabal@univ-lehavre.fr.

détente but the West African Economic and Monetary Union (WAEMU) was launched after the cold war.

Concept and forms of regional assertion. The concept of regional assertion is fairly simple. Regional assertion means "getting organised as a region with a view to equalisation with other regions", a levelling-off of sorts, with partnerships and exchanges but on an equal footing. However, the forms of regional assertion are many and complex : from a 'conference' or a 'cooperation' to a 'union', there lays the vast array of 'customs unions', 'common markets' and 'single policies' as well as the full range of political commitments.

The main argument here is that, given the history of colonisation and independence, African and Asian assertions are taking place in a context of forgetfulness (I) and have an impact on political reinventions (II)

I - The context of 'South-South' assertion : forgetting the North and the West

Post-conflict dynamics, whether post-colonial or post-war, create a context of open options. One natural option is for former dominators or dominated to distance themselves, sometimes obliviously to the point of - it seems - forgetfulness, whether political forgetfulness (§ 1) or economic forgetfulness (§ 2)

§ 1. The political forgetfulness of Europe vis-à-vis Africa and Asia

'Forgetfulness' is to some extent too strong a word to qualify relations in an open and globalised world. However, certain attitudes of Europe in the post cold war have been surprising, to say the least and in, two cases, a hidden agenda was probably operating, perhaps more bluntly in the case of Africa but such an agenda was present also in the case of Asia.

As to Africa, the 1994 Lomé Agreement renegotiation had as an impact that they decoupled Africa from the Caribbean and the Pacific regions. This happened as if Europe was forgetting Africa for the benefit of

Asia-Pacific and was doing so only a few years hence, after the creation of APEC in 1989/1990. Furthermore, secondly, the unilateral devaluation of the CFA Franc struck a blow to West African economies of the France Zone without any apparent logic rooted in post-independence Europe-Africa relations. This was perhaps more a preparation for the European single currency than an attitude 'mindful' of African interests.

As to Asia, the 1996 ASEM or Asia-Europe Meeting or Process looked as if it echoed a strong European 'mind' in favour of Asia, or at least of Southeast Asia since ASEM brings together EU Members and ASEAN Members and the "+ 3" or associated countries. But on the face of it, in fact, ASEM corresponded to a *European* need: to have an outlet for the new European Union's foreign policy in the making. It corresponded also to an Asian need but more a need for Northeast Asia than for Southeast Asia. In other words, ASEM made sense less in terms of the founding ASEAN members than in terms of China, Korea and Japan, not even ASEAN Members but in 'ASEAN + 3'.

Why should Africa and Asia then 'remember' Europe if Europe takes the first and second opportunities to seek elsewhere the best way to serve her interests? Africa and Asia's interest is also to look somewhere else, not as a retaliation but out of realism and, partly, to each other.

§ 2. The economic forgetfulness of Africa and Asia vis-à-vis Europe

This political opportunism of Europe is somewhat outdated since the world is now an open trading bloc where all relations matter. It led, as European opportunisms, to a dedicated economic realism in Africa and in Asia. Notably, in the post cold war, where their foreign trade with other regions and the foreign direct investments from other regions have been redirected.

As to Africa, this redirection of trade and investment has operated towards Asia and Latin America even if, to some extent, Europe's partial 'withering' from Africa led also to a potent US influx of economic relations with Africa. Clearly, the post cold war inventions are South-South oriented.

In this vein, African foreign trade has massively boomed with Asia and Latin America, essentially, thereby 'redirecting through diversification' of relations. Here lies the innovation, even if some continuation lingers on in trade with the West/North: Africa is not in a simplistic, revengeful attitude with the Europe and the West but in an open-minded attitude, assessing economic partnerships less in terms of historical dynamics but in terms of competitiveness of candidates to trade with Africa.

As to Asia, the 'redirecting' of trade and investment has 'taken on' more a form of recentering. Asia's economic and trading partnership, logically, have 'exponentialised' with Africa, but Asia herself is a continent that belongs both to the prosperous North and to the emerging South. In this dynamic, industrial and prosperous Northeast Asia, including China from the 1990s has been able to 'recenter' toward Southeast Asian partners and also towards Central Asian new partners. The three countries of 'ASEAN + 3', that is China, Japan and Korea, massively invest in Central Asia, especially into Kazakhstan and Uzbekistan, where they are more than 'on par' with Europe and North America. This trend, however logical, is new and as such deserves a redirecting also of international research.

II - The impact of 'South-South' assertion: 'reinventing 'Afrasia'

Regional dynamics do not occur in vacuums but as a reaction to a context of particular intensity and they bear upon the realisation of innovations directly linked to the management of this context. Two such innovations are classic steps in regionalisation. One consists in turning neighbours, from foes, into partners (§ 1); another in institutionalising cooperation and making it irreversible or at least lasting and open-ended (§ 2).

§ 1. Regionalising neighbours

The post cold war everywhere in the world has brought about a redefining of concepts such as allies, neighbours and partners. To be sure, allies could be distant ones and no longer prevail today: neighbours as

partner-neighbours have become the norm. This is clearly the case the European construction, turning European 'enemies and dangers' into 'integrative partners' but also the case of other regions (hence the need for comprehensive comparative analysis, which escapes the format of this article).

Africa is a case in point, where regional organisms are flowering. However, what would be a European 'model' is not in application as such in this continent. Africa 'knows better' than imitating Europe. Even if the terminology (the 1975 Economic *Community* of West African States, the 1994 West African Economic and Monetary *Union*) sounds European, West Africa has devised and implemented common sectoral programmes before integrating through institutions and community law on a European mode. Neighbours within African sub-regions have turned from geographical entities into political and economic trusts and confidence-building groupings, all over Africa, West, East and Southern, Central and Northern. The trend is certain and conferences such as the one where this paper was presented bear testimony to this fact: topics are integrations through common organisations.

Asia is another instance illustrating this very point regarding innovations. This is a continent where history has produced distrust long before colonisation and where, therefore, decolonisation, engulfed into the East-West division, just as in Africa, has not left nations and states free to choose their new course of action. So that Asian nations have either never learnt to trust each, especially in the case of china, Japan, Vietnam, etc., or never had Nation-States, comparable to the European 'model', as in Central Asia today, where States have to manage Nation-building, pluriethnically, first and foremost. However, Asia's inventiveness, has created dynamics conducive to such novel forms of management, notably the Conference on Interaction and Confidence-Building Measures in Asia (CICA) since 1996, in addition to the Conference on Security and Cooperation in Asia-Pacific, a 'remake' of the Heklsinkin CSCE but transpacific and therefore may not be on the appropriate (territorial) scale.

Comparisons are always delicate (and 'die hard') and not relevant if they attempt to conclude on exact resemblances but ought to suggest

similarities which then have to be contextualised. Meaningful comparisons are between European *integration*, African and Latin American *common policies* and Asian *trust-building*. In twenty years, Africa and Asia have, from this point of view, progressed faster than the European ones.

§ 2. Communitarising, Unioning, Organising

Various forms of regionalising exist in the world which itself has become pluri-regional. What matters is less the realising of such or such a form than the capacity for partner-neighbours to progress from one form to the next. To be sure, for instance, APEC has not so progressed but remained an intergovernmental conference; NAFTA is still just a trade Agreement among economies. But Europe and West Africa have gone from Community to Union; and Asia has progressed from a dormant to an active ASEAN and from a Group dynamics to an Organisation of Cooperation (Shanghai).

As to Africa, it was uneasy for me, speaking at a conference in the presence of our colleague Alioune Sall, author of *Les Mutations de l'Intégration des Etats en Arique de l'Ouest*,[1] to speak with authority of West African regional organisations. However, it seems to me that all necessary conditions are assembled for 'assertion' there, even if they cannot be adequate conditions. The regionalising laboratory is active, almost in full swing: the capacity to go from an *Organisation* of African Unity to an African *Union*, *at the same time* as the capacity to go from an Economic *Community* of West African States (ECOWAS) to a West African Economic and Monetary *Union* (WAEMU), while naturally Central, Eastern and Southern Africans also innovate with Common *Markets* and Development *Communities*, bear testimony to this fact. Critical appraisals sometimes point to the insufficient 'results', especially concrete results 'comparable' with European ones, of such initiatives. Realists will probably never agree with Idealists for what is idealistic phenomenology is not simply a mental attitude which puts the relevance of projects and ideas before the accounting of the deeds.

---

[1] L'Harmattan 2006.

As to Asia, it is in a sense similarly uneasy for me here, albeit for different reasons, to speak with authority. Such a (relative) uneasiness is due to the fact that the most innovative Asia is also the most novel and therefore the least known: the Asia of the Shanghai Cooperation Organisation (China, Russia, Central Asia[1] + observers). Generally speaking, Asia is both inventing trust, as is recalled *supra*, and institutionalising trust. i) First, the Association of Southeast Asian Nations or ASEAN of 1967 has become an active 10-Member ASEAN, with enhancing developments such as 'ASEAN + 3', 'ASEAN + 6', the ASEAN Regional Forum or ARF, the East Asia Summit and, already since 1996, ASEM, some fifteen years ago today; ii) the Shanghai Group Asia of 1996 became in 2001, only six years later, a full 6-Member Organisation, with four potent observers (India, Pakistan, Iran and Mongolia), as well as full and pillars, common military manoeuvres sectoral environmental ambitions. Times have long since gone when Asia was either recovering from post-colonial adjustments, or fractured by the cold war or even uncertain as to the viability of her economic miracles. The last artificial blockage - division of Korea - should soon be lifted.

Common Secretariats, parliamentary assemblies, financial arrangements, as well as suggestions to merge institutions, for instance the two Secretariats of the Common Security Treaty Organisation and of the Shanghai Cooperation Organisation into a common secretariat for instance, as was suggested in 2007, confirm this admittedly varying degree of institutionalisation, which is today a given fact to be integrated into any comparative analysis of comparative regionalisms.

In **conclusion** of such a rapid overview of the proposed emphasis on regional assertions in the dynamic of 'South Vs North' post cold war dynamics, the claim is not to have illuminated the subject, let alone thoroughly. However, a few points can be further made to sum it all up:
 i) the 21st century shall be that of 'post-dependence' theory. Of course, neo-dependence, domination and inequality shall persist but the regional

---

[1] Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, but not Turkmenistan.

thrive is one of equalisation;

ii) regions 'closing-in' will probably incur delays in their world assertion. Europe's 'criterionisation' contrasts here with African and Asian open-mindedness;

iii) institutionalisation, especially 'achieved'/'deepened' integration is not a prerequisite or even a measuring tool for region-building. The 'idea' of a region and a regional 'project' are more fundamental;

iv) last, the risk also exists of regions yielding antagonistic regionalisms, just as Nations launched nationalisms and wars.

LOCAL AGENDA 21 - LOCAL PLAN FOR SUSTAINABLE DEVELOPMENT GALATI

Ph.D Professor Raducan Oprea
Ph.D Assistant Professor Ramona Mihaela Oprea
The Faculty of Legal, Social and Political Sciences
"Dunarea de Jos" Univerity of Galati

Abstract
Agenda 21 is a plan for implementing the concept of Sustainable Development for 21st Century, launched at the United Nations Conference on Environment and Development in Rio de Janeiro in 1992. Romania as a signatory to the Convention in Rio de Janeiro, committed herself to take steps to apply this document, both nationally and locally.

In Galati, a local sustainable development plan was created in order to apply the directives of the Convention in Rio de Janiero in 1992.

Tools of Local Agenda 21 are: Local Strategy for Sustainable Development, Local Action Plan, Portfolio of Priority Projects.

Throughout this paper we analyzed only local issues of sustainable development strategy in Galati.

Keywords: vegetation and fauna, water, green spaces, port, tourism, energy.

JEL Classification: Q01, Q56.

Agenda 21 is a plan for implementing the concept of Sustainable Development for the 21st Century, launched at the United Nations Conference on Environment and Development in Rio de Janeiro in 1992. Romania, as a signatory to the Rio Convention, pledged to take steps to apply this document, both nationally and locally.[1]

The principles underlying the preparation of this document are:
☐ social progress, conditioned by the needs of each individual;

---

[1] LOCAL AGENDA 21 - LOCAL PLAN FOR SUSTAINABLE DEVELOPMENT Galati, pp. 1-3.

 effective environmental protection;
 rational use of the natural resources;
 maintain a high level of economic growth and employment.
        Advantages of Local Agenda 21 are:
 decentralized development
 the promotion of key projects for the local community
 providing the framework for financing local infrastructure projects
 Promoting public-private partnership
 involving all local stakeholders
        Instruments of the Local Agenda 21 are:
 Local Sustainable Development Strategy
 Local Action Plan
 Portfolio of Priority Projects

The Local Sustainable Development Strategy document is a long term project of the public administration and local institutions. The structure has three parts:

• History and natural capital (the geographic framework, environmental factors quality);
• Man-made capital, the economic situation of the area;
• The proposed targets for the development of the city.

The Local Action Plan for Sustainable Development is a real planning on medium and long term to achieve the objectives of the local strategy. Those measures are achieved through programs and projects.

The Portfolio of Priority Projects includes those programs and projects that respond to the local community issues, and which may contain implementation indicators, that will be made soon.

The concept promoted by the Agenda 21 is based on the transition from uncontrolled economic growth which generates negative effects for both social and environmental standard - to sustainable development.

The role of the local authorities, together with the community is extremely important in determining the liability, the decentralized allocation of resources, in increasing consistency of policies and so accomplishing the sustainability of development.

This program was developed to improve the population's living standards and aims to stimulate public participation in the decision-making process. It is therefore essential that each local authority should create their own Local Agenda 21.

1.Local Sustainable Development Strategy in Galati

The Natural Capital

1.1.1.   Geographical Location

Galati is located in the South-East of the Covurlui Plain, on the left bank of the Danube, lying on three terraces, from 4 to 35 m high, 7 km downstream of the Danube and Siret confluence ,150 km upstream from the Danube´s flow into the Black Sea.

1.1.2.   Climate

The county of Galati has a continental climate (the southern and the central part totaling more than 90% of the area are in the plain climate and the northern part representing 10% of the territory is in the hills climate).
In both provinces the summers are very hot and dry and winters are cold, marked by strong blizzards, and the frequent interruptions caused by warm and humid air currents from S and SW, which determines intervals of heating and melting of the snow layer.
The rainfall in the county recorded the lowest values in the country.[1]

1.1.3. Flora and Fauna

According to the specific relief and climate, the vegetation and fauna are characteristic of the steppe and forest steppe zone.
In the Danube and Siret area the willow groves and various species of plants are predominant.
In the Covurlui Plateau there is a forest vegetation, pasture and hay. Large areas are planted with vineyards, fruit trees and grain crops.
Fauna is represented by rodents and birds - quail, partridge, skylark are the most common.
The secular forests of Adam, Buciumeni and Viile host species of hunting interest - wild boar, fox, etc. - the waters of Siret and Prut have a rich aquatic fauna.
The Natural Reserve - Garboavele Forest: Garboavele Forest

---

[1]21 Local Agenda, op. cit, pag.6

Reserve is located at 17 km distance from Galati.

Covering about 100 hectares, the reserve is surrounded by locust trees on an area of 350 ha. Gray oak and pubescent oak, hawthorn bushes, dwarf almond are predominant.

The forest hosts over 470 species of flora, including some rare species (Iris, Spring adonis, Romanian peony). In the Valley of Garboavele Forest there is a specific area of swamp vegetation.

The fluviatile dunes at Hanu Conachi: The Floristic Reserve is located at 50 kilometers distance from Galati and has an area of 199 ha. It is a sandy strip that extends over 4 km and it is populated by creeping willow and acacia plantations. Fauna is represented by species like sand lizards, sand snakes.

1.1.4 Environmental factors

The Water

Surface Waters

The hydrographic network is dominated by two major collectors: the Siret and the Danube rivers. In the Southern part of the city the Siret River flows, in the south-eastern part of the city the Danube, the Prut River flows in the east, in the west the brook Catusa and in the north-east the Lake Brates.

For farms or irrigation, water is captured from the Danube and the Lake Brates. The lake has an area of 24 square km having two pools: Upper and Lower Brates. Inside the Lower Brates, 21 square km arranged for fish, irrigated agriculture is practiced on about 14 500 ha and in the Upper Brates on approx. 7500 ha.

Groundwater Resources

Groundwaters are stored in porous rock horizons, in flat or discontinuous aquifer layers, in alluvial gravel of the Siret and Prut. They are also found in the sandy plain of Covurlui. Interception water table is done in the valleys, through wells. In the interfluves, the ground water depth is 10-30 m. In terms of mineralization, they contain 0.6 to 1.0 g/l salt, and their hardness is 15-20 degrees, the water being drinkable.

Problems

• increasing levels of iron in the Danube and Prut, because of the iron particles transported in soil by the natural rainfalls from the slag heaps of Arcelor-Mittal;
• Infection of groundwater due to the landfill, totalling an area of 3.4 ha;
• Infection due to lack of ground water sanitation up to 90% of the old stock built.

Air

The main source of atmospheric pollution is a steel plant "Arcelor-Mittal" Galati, located on the platform Smardan at 3 km west of Galati and having an effective area of 1594 ha.
Integrated steel making is, in terms of energy, very efficiently, but it implies the existence of numerous sources of pollution, especially in the air.
After being processed, the sources from the steel plant "Arcelor Mittal SA Galati are divided into:
  - Sources that emit pollutants as a result of combustion processes;
  - Various sources that emit particulate compositions from transport and processing raw materials.
  - Also, the sources of air pollution sources can be concentrated with high flows, which discharge pollutants from dispersion in bins, or it may be individual and random sources, like gas leaks, leaks, etc.
There are currently 94 de-pollution installations in the steel plant "Arcelor-Mittal" in Galati, they operate according to MAPPM Order 462/1993, a number of 36 installations (about 39%).
The investments in environmental protection made these years at the steel plant "Arcelor-Mittal" Galati, focused on upgrading and modernization of the production stages.
Concerns in this area began in 1991, and the investment has been directed to environmental factors: air protection, water protection, prevention, collection and disposal of waste, soil and groundwater protection and natural environmental protection investments.

Problems
• The quantities of pollutants emitted into the atmosphere are high due to the plant size, of those seven plants and about 140 baskets of dispersion.

The plants that contribute most to the air pollution: Chemical-recovery plant, Agglomeration plant furnaces, steelworks Refractory Plant.

The Soil

Geotechnical data and geomorphologic processes
The soil is made up to a depth of 15.30 m of yellow loess intercalations of clay dust. As a result of rising groundwater level, the yellow loess has various moisture conditions.

Geological structure
From the geological point of view, Galati is situated on the south side of the Moldavian platform; in this area it makes contact with the platform of North Dobrogea.

The sedimentary coverlet that covers the soil of the rigid platform has a thickness of 3,000 m and consists of Paleozoic and Neozoic formations.[1]

Seismicity
In terms of tectonic, Galati is located at the tectonic fractured line Focsani - Namoloasa - Galati, an area where earthquakes are felt in Vrancea and the frequency is about 30 years with a seismic intensity level corresponding to 8 degrees per Mercalli scale.

In the areas with high hydrostatic level and alluvial land, the building dynamic coefficient increases, and seismic forces that the structure is loaded with up to 8.5 on the same level corresponding to the seismic scale.

Problems
• the effects of eliminating the drainage and natural collectors began to be noticed by the occurrences of water domes. Simultaneously with the

---

[1] Local Agenda, op.cit, pp.10-13.

formation of these domes, in the area occurred the wetting of the layer of the macro yellow loess, which, along with the defective policy of construction discipline causes the phenomenon of subsidence;

• to know the extension and the depth of groundwater level in Galati in 1974 the execution of 150 observation wells for groundwater level were approved, only 110 are currently operating. In most boreholes, the groundwater level has increased; the increases are 10.15 m in 20 years;

• currently the rise of the groundwater level platform from the North-Western part of Galati has become alarming, the groundwater is no longer drained because of the clogging of the valleys, they are looking for other collectors, heading east, towards Lake Brates;

• in the recent months the ground water that accumulates at the foot of the slope, rather than turn to cliffed shore Brates, seeks its outlet to the south, where there are important buildings including the Museum of Art, University, Polytechnic Institute, State Theatre, the Prefecture, etc.., monumental buildings founded on unconsolidated yellow loess, which, by dampening may create uncontrollable effects on the structure of their resistance. Already there were two landslides, in the Public Garden area- the casino and in the Fire Unit area.

The underground sewage works were financed by PHARE.

Considering the problems discussed above and the fact that the area is an "area of potential risk, "disaster generator, which can endanger buildings, architectural monuments, not in the least, human life, for the works of decompression of the groundwater level by a specialized company are required as well as a study on this issue.

Green Spaces

The green areas recorded at the local public administration, measure 3048 hectares in the Local Council Administration, 3 ha in the Lower Danube University administration and 5.7 ha at SNCFR - Galati Region administration. Cadastre and Land Registration Office recorded 1.81 ha of land for yard and garden, leased according to the Law 112.

Problems

• The issues that arise are related to the maintenance of existing green places and develop new areas of green places (parks) in town.

1.2. The Local Economy

Galati, an international trading city in the past when various goods were traded by water, not only in Romania but also in the neighbouring countries of Romania, became, during the '60s, a heavily industrialized city. Currently, the city is characterized by the dominant presence of the steel industry represented by the steel plant "Arcelor-Mittal, steel mill and factory wire, nails and chains, and the shipping industry - Damen Shipyards, MENAROM, and Institute Elnav Galati naval research and design, ICEPRONAV, and businesses in the food, textile, construction domain, etc.

1.2.1. Metallurgy - Arcelor-Mittal "Galati

Founded in 1961, the industrial complex covers an area of 1594 hectares and comprises the largest share of the workforce in Galati. Since November 2001, the majority of shares in the steel plant belong to "Arcelor-Mittal" Galati. This plant is the largest steel producer in Romania and the second largest in Central and Eastern Europe. Arcelor-Mittal is a fully integrated steel plant, located in the west of the city, which primarily produces flat products (thick galvanized plate, hot and cold rolled strip), and blooms for rolling tiles and welded pipes of a large diameter, with a capacity of 10 million tonnes, representing 70% of the national production of steel and 95% of the Flat.

The steel plant "Arcelor-Mittal" dominates the domestic market, an estimated segment of 95% of the domestic market and exports goods which represent 55% of turnover.[1]

Plant activity is about 5% of Romania's gross domestic product and 25% of the country's gross domestic product is directly or indirectly affected by the work of Arcelor - Mittal. Due to the volume of its work, Arcelor - Mittal may transmit negative or positive effects.

---

[1] Local Agenda, op.cit., pp. 20-23.

1.2.2.   Shipbuilding industry - SC DAMEN SA

Galati Shipyard is a leader in the shipping industry for more than 100 years. The site is located on the Danube River between the city and the Free Zone. Since 1991, Galati shipyard became a joint stock company having engaged in the design, construction, repair and sale of ships. In March 1999 the majority stake was bought by the Damen Shipyards Group in the Netherlands.

1.2.3. River navigation and port activities

The port complex consists of the Port Docks, the Port of New Basin, the Old Commercial Port and the Ore Port. Galati is the largest fleet of the Danube fleet. Transport on inland waterways, carried approximately 60% of the national transport. In 2001 there were transported by inland waterways Galati 8231.4 thousand of tonnes of goods, the largest shares in the quarter IV/2001 being held by the following groups: raw and processed minerals, iron ore, steel, metal products, cement and lime, prefabricated building materials, grains and solid fuels.

The Ore Port, Romportmet SA, originally created to serve the Steel plant, is a specialized service provider, its main activity being the unloading of raw materials in bulk. The Port Docks, specialized in loading and unloading of general cargo, has an operating potential of around one million tones annually.

The New Basin Port is the largest maritime Danube port, located near the Free Zone, near the border with Moldova and Ukraine.

1.2.4. The Naval Institute of Design

The most important naval research and design center in Romania, ICEPRONAV SA, is located in Galati. Founded in 1966, the institute has a large design department of ships, marine structures and equipment, and a small production department, with opportunities to test models and prototypes.

In design, the institute operates with an integrated computer system for the shipping industry (TRIBON) used by all Romanian sites and still over 300 users worldwide (ICEPRONAV is today, in terms of its capacity,

the fourth specialized institute in the world).

1.2.5. Agriculture

Agriculture is one of the most important activities for the Southeast region, and also in Galati. Representative for this area are the crops: wheat, corn, barley, sunflower, soybeans, grapes (Nicoresti vineyards are famous for wine).
The total area of 446,632 ha in the county:
• agricultural area is 358,754 ha, of which:
- arable land: 292.229 ha
- vineyards: 20 368 ha
- pasture: 43,580 ha
- hay: 598 ha
- orchards: 1979 ha
• forests and other lands of the forest fund: - 36.273 ha
• water and ponds: 13,019 ha
• other areas: 38,586 ha
Out of 24,642 ha, 12,800 ha is represented by the agricultural area.
In the city, there are processing units of wine, milk, milling and baking, meat processing, production of concentrated feed. Most of these companies have been upgraded or they are in progress of upgrading, the result is an image-enhancement products and a more courageous approach to markets. However, the lack of livestock farms affects the selling price of finished products for milk, meat and feed concentrates. The lack of packaging manufacturing industry up to the European standards has consequences, the food products were challenged not only in volume but also in appearance by the imported products from the other parts of the country.

1.2.6 Tourism

Tourism is an important potential for Galati, not so much through the unused heritage tourism, but especially by the function it might have in attracting and redistribution of tourist flow components. Much of the international tourist flow goes to the Black Sea coast and the Danube Delta Nature Reserve, but the tourist may visit Galati.

Galati has monuments and archaeological sites, nature reserves, many architectural monuments of the 19th – 20th centuries, churches and religious assemblies from 18th – 19th centuries, and numerous urban parks with a dendrology value.

The Travel Fund provides opportunities for the fish stock (ponds, the Prut and the Siret rivers, the Lake Brates, the Danube River) and hunting resources (the Prut, the Siret and the Danube nature reserve).

The Garboavele Forest Reserve is located at 17 km distance from the city of Galati. Covering about 100 hectares, the reserve is surrounded by locust trees on an area of 350 ha. The fluffy gray oak, the oak and hawthorn shrubs, dwarf almond and pigeon are dominant. The forest hosts over 470 species of flora, including a number of rare species: iris, spring Adonis, Romanian peony, or the shadow rabbit and the like. In the Valley of the Garboavele forest there is a specific area of swamp vegetation

Galati has theatres with tradition and prestige, such as "Fani Tardini" Theatre, "Nae Leonard" Musical Theatre, "Gulliver" Puppet Theatre.

Among the city's attractions we include the museums, memorial houses, monuments and fine arts assemblies in memory of personalities from the local or national significance, in remembrance of moments or events in the life of the city (the bust of Al. I. Cuza Metal sculpture camp on the Danube promenade, the statue of Mihai Eminescu, the dockers' statue, the Museum of Modern and Contemporary Art, the Museum of History, and many other sights).

You should not forget the Old Commercial Port, which restored and landscaped, would be an extension of the promenade area of the Danube promenade and a gateway for domestic and international tourism, a huge potential for the tourism development in Galati.

1.2.7. Free Zone

In Galati there is one of the sixth free zones in Romania. The Free Zone existence implies an advantage for the city; it was created to promote foreign trade and attract foreign capital to a better enhancement of resources and introduces new technologies.

The Free Zone is located in the east part of the city, with access to the Danube. This position provides the following advantages: access to the

water, road and rail transport.

The most important feature of Galati is its location in the heart of trans-European waterway Rhine-Main-Danube. Increasing the attractiveness of the area is subject to the development of port and port-industrial areas of free zones and transport routes patency territory for European interest, which involves the completion of roads - bridges for crossing the river Danube, proposed in- Braila, Galati, Tulcea area - completing the road corridor in our country, as expected by the Black Sea Economic Cooperation.

Problems
• The imbalance between the various local industries. While the metallurgical industry has contributed over three quarters, the other branches are underrepresented in the economic outcomes.
• The volume represented the importance of local taxes payment and debts to the central institutions, through a steel industry in the local economy.
• The contribution of foreign capital is insufficient in the privatization of medium and large enterprises.
• The number of SMEs is not large and diverse to be a great alternative in restructuring the industry. SMEs support and the conditions for the establishment of new SMEs, although it has a legal basis is not enough to propel this sector of the economy.
• Most economic capacities are lagging behind in terms of technology, which it is reflected in efficiency and competitiveness.
• Large number of unused installed capacity
• Restrictions on activities of research centers at "Dunarea de Jos" University, specialized institutions (ICEPRONAV, ICPPAM, Research Institute of Fish and Wine Research Station Targu Bujor), although their potential is very important for the domestic needs and the international collaborations.
• Economic high-tech branches (computer, electronic communications networks and radio stations, small boats), which have a high added value or that attract female workforce (leather, textiles, shoes) - are absent or scarcely represented in our economy.
• Restriction of activity and unemployment in most institutions.
• Not integrating properly in the national and international transport network.

• With regard to tourism, the following have to be taken into account:
- Lack of promotion of image and tourism potential of Galati;
- A faulty management and marketing in tourism which does not attract tourists;
- Relatively low standard hotel services below the Western standards' tourists expectations.

BIBILOGRAPHY:

*** *Local Agenda 21 - Local plan for sustainable development in Galati,* Galatz, 2002.

STRUCTURAL INSTRUMENTS WITHIN 2007-2013 FINANCIAL PERSPECTIVE

Ph.D. candidate Orac Camelia Mădălina[1]

Abstract:

The present paper illustrates the essential objective of the European Union, the economic and social cohesion that can be achieved through the Structural Funds. Nowadays, Structural and Cohesion Funds are financial instruments used by the EU to eliminate economic and social disparities between regions in order to achieve economic and social cohesion. Cohesion Fund helps the Member States with a gross national product (GNP) per capita of less than 90% of EU average to reduce differences of economic and social development levels and to stabilize their economies.

For the programming period of 2007-2013, the European Social Fund interventions aim is to support the Member States to anticipate and effectively manage economic and social changes. The European Regional Development Fund is reflected in financing productive investments and infrastructure in order to ensure sustainable development.

Keywords: *economic and social cohesion, structural instruments, disparities elimination, GNP per capita, economic growth potential.*

JEL Classification: R11

General Trends

The essential aim of the European Union, the economic and social cohesion, can be achieved through the Structural Funds. Structural Funds are under the impact of constant changes due to the challenges of enlargement process of the Union.

The oldest structural instrument of EU regional policy is the European Social Fund (ESF), which was implemented in 1958 for the purpose of improving the functioning of labor markets in different countries and the reintegration of unemployed into the labor market.

At the conference in Stresa (Italy), there was placed the foundations

---

[1] Assistant at Dunarea de Jos University, madalina.orac@gmail.com

of the single market for agricultural products and thus of the P.A.C. This policy was to be financed by the European Agricultural Guidance and Guarantee Fund (EAGGF), the Guidance Section (1962). Moreover, EAGGF was to support the rural development and to improve the agricultural structures. In the near future, EAGGF (through its two sections: Agricultural Guarantee and Guidance) held the largest share of the Community budget. However, the impact of EAGGF, and ESF as otherwise, on regional development and eliminating disparities was initially small.

A novelty in the evolution of EU funds was the impact of energy crisis in 1973, when EU faced a new problem: its dependence on oil imports. This crisis, combined with the prospect of EU enlargement, has contributed to the creation of the European Regional Development Fund (ERDF) and a Regional Policy Committee. The original objectives of the ERDF were focused on developing infrastructure and promoting innovation, in order to mitigate the regional disparities by redistributing the national contributions to EU budget to less developed EU regions

These three funds have been named European Structural Funds by the European Council in Brussels (1988). The new name has attracted the modification of the mechanisms of funding, these mechanisms aiming primarily at programs structured on priority areas and objectives of the regional policy. The objectives of the funds were: Objective 1: Development and structural assisting of the poor regions, Objective 2: Assisting of the areas with industrial decline and Objective 5b: Support of the development and structural adjustment of rural areas.

Achieving these goals has been initially established for the period 1989-1993, based on the implementation of the programming official documents (Operational Programs and Community Support Framework).

Aiming to create the Single European Market and transit to the next stage of integration – the Monetary Union - the Treaty on the European Union has provided a commitment to achieve economic and social cohesion (Article 130a: "The Community shall aim at reducing disparities between levels of development of different regions and the lack of progress of disadvantaged regions, including regional areas) and by Article 130d, it has established the base to create a new fund to provide financial assistance in economic development through projects to improve transport and the environment – the Cohesion Fund. This fund has operated since 1993,

together with the entrance of the Treaty on European Union.

In 1994, it was created the Financial Instrument for Fisheries Guidance. This new facility was structurally related to Objective 6: Assisting and promoting the structural development of sparsely populated regions.

During 1994-1999, the regulations related to the operating mechanisms of Structural Funds were amended and / or improved to suit the new structure of EU eligible regions.

The evolution and the perspective of these objectives is presented chronologically as follows:

1 9 9 4 - 1 9 9 9

- O_1 - economic adjustment of the regions lagging behind in terms of development (defined as a certain relation to the average EU GDP);
- O_2 - economic conversion of the declining industrial areas, i.e. the regions where unemployment and labor force employed in industry were higher than the EU average, combined with a significant decline for this category of labor;
- O_3 – fighting against long-term unemployment and facilitating the employment of young people and those at risk of exclusion from the labor market, while promoting equal opportunities in terms of employment for women and men;
- O_4 - facilitate labor adjustment to changes in industry and manufacturing process in general;
- O_5 - promoting rural development through two sub-objectives:
  a) expedite the adjustment of the agricultural structures in the CAP reform and promote the modernization and the structural adjustment of the fisheries sector;
  b) facilitate the development and structural adjustment of the rural areas (including those characterized by low socio-economic indicator measured by GDP per capita and a large proportion of the workforce engaged in agriculture, low population density and a significant trend of depopulation)
- O_6 - promoting the development and structural adjustment of the regions with extremely low population density (particularly sparsely populated regions of northern European countries).

2 0 0 0 - 2 0 0 6

- O_1 - promoting development and structural adjustment of regions whose development is lagging behind, namely: GDP per capita is less than 75% of EU average
- O_2 - promoting economic and social conversion of areas with structural difficulties (they are eligible under this objective the areas of economic shifts, declining rural areas, areas dependent on fisheries, urban neighborhoods in difficulty);
- O_3 - promoting all measures for the modernization of training and employment promotion.

2 0 0 7 - 2 0 1 3

- O_1 - promoting convergence and economic development and job creation in the least developed Member States;
- O_2 - promoting regional competitiveness and employment by preparing work force to attend and meet the labor market changes;
- O_3 - promoting regional cooperation at European level.

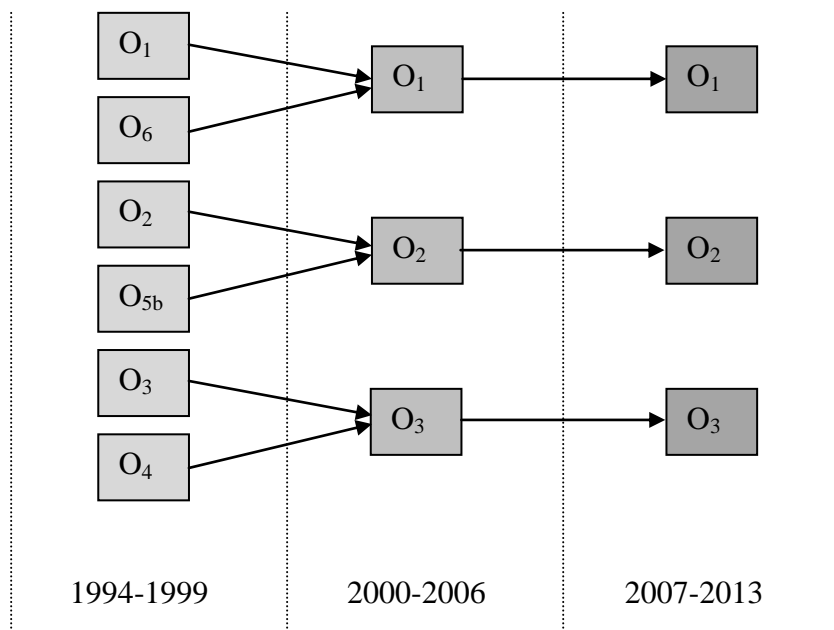Redefining these objectives is represented in Figure 1:

1994-1999   2000-2006   2007-2013

Figure 1: The Structural Funds Objectives

167

In actual sense, Structural and Cohesion Funds (SCF), or Structural instruments, are the financial instruments that the EU acts to remove the economic and social disparities between regions in order to achieve the economic and social cohesion.

The regulation 1083/2006 lays down the rules on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

The European Regional Development Fund supports: investments to create jobs (as a priority sector for the SMEs), infrastructure (transport, environment, communications, education, health, social, cultural frame and energy), development potential local (providing support and services to businesses, networking, cooperation and exchange of experience) and technical support.

The ERDF eligible activities are: VAT, interest on loans, purchase of land in an amount less than 10% of the total eligible expenditure for housing and construction activity.

On the other hand, ERDF focuses on the Lisbon strategy, the infrastructure investment, research - development and SMEs.

European Social Fund supports the actions of States in the following areas:
* adaptation of workers and enterprises, systems of lifelong learning, design and dissemination of innovative forms of work organization;
* improving access to employment for persons seeking employment, for inactive people, women and immigrants;
* social integration of disadvantaged people and combating all forms of discrimination in the labor market;
* strengthening human capital through the implementation of reforms of the education systems and networking of the activities of schools.

ESF also focus on the Lisbon Strategy, focusing on training, employment, institutional capacity and administrative efficiency.

The Cohesion Fund promotes sustainable development through trans-European transport networks, environmental protection (energy efficiency, transport, non-road transport, public transport, environmental etc.). The priorities of this fund aims to environmental infrastructure, transport and energy.

The current programming period (2007-2013) was raised for the first

time, by the Commission Communication COM (2004) 101, in which, among others, there have been redefined the EU financial instruments so that they are closer for the desire of economic and social cohesion.

The present structure of the financial instruments for the regional development policy includes the Structural Funds (European Regional Development Fund and European Social Fund) and the Cohesion Fund.

The new regional development policy objectives integrate both those of the period 2000 - 2006, and the old Community Initiatives: INTERREG, EQUAL and URBAN.
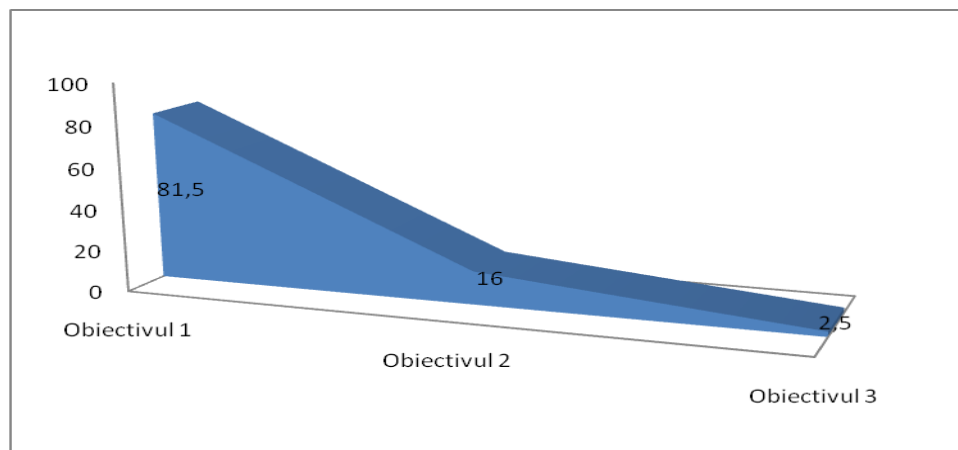
Figure 2: Distribution of European funds per objectives, 2007-2013

Mechanisms for defining and establishing the structural instruments

The last two enlargements of the European Union represents a great challenge for the regional policy objectives and thus for proving the effectiveness of the structural instruments.

Without forgetting the challenges of competitiveness, economic restructuring and social sustainability and less developed regions, the process of convergence continues in the regions, once affected by the enlargement process, they have become ineligible under Objective 1 as a result of the statistical effect of average GDP per capita; achieving economic and social cohesion throughout the EU or global crisis.

In 2000-2006, 10 regulations have worked simultaneously on the

Cohesion Fund and the Structural Funds. They have been replaced by a single Commission Regulation implementing the cohesion policy, which has facilitated the efficient management of the funds.

The implementation of the EU regional policy is based on the Structural Funds, which are considered the most important financial instruments. The basic idea in setting up the Community budget that is financing these funds is the contribution of Member States, depending on their economic strength. Countries such as Sweden, Austria, Germany, Netherlands and the UK have some adjustments to calculate their contributions.

On the other hand, the allocation of these funds is higher for the less developed Member States, especially in the last two enlargements. There are Member States from the EU 15 that receive significant amounts of these funds, such as Greece, Spain or Portugal.

In 2009, Romania was ranked in the tenth place last year in the European Union, after the allocations received from the Community budget of EUR 2.666 billion (2.5% of budget), while the Romanian state's total contribution amounted to 1.217 billion Euros, according to the report submitted by the European Commission.

Romania is the seventh country in U.E. by population size, but last year it was ranked 17th by the size of the economy, value calculated according to the gross domestic product (GDP) value, said NewsIn.

Romania was the net beneficiary of EU funds, and most of the funds received last year (1.06 billion) were for agriculture. In this chapter, the biggest beneficiaries were French farmers who received more than 10 billion Euros, followed by Spanish (7.1 billion), Germany (6.6 billion) and Italy (5.4 billion).

Direct aid and subsidies to agriculture amounted to 43.3 billion Euros and 37% of the EU budget, equivalent to an amount of 116.5 billion Euros.

If added the expenditure for rural development, fisheries and environment, of 11.5 billion euro, the funding will raise to an amount of 53% of the Community expenditure.

Romania has received the most amount of money among the EU countries from pre-accession funds, i.e. EUR 744.8 million, while Bulgaria has received only 201.4 million Euros. The third place was occupied by the cohesion fund allocations, amounting a total of 648.5 million Euros.

The Romanian state has also benefited of 142.7 million Euros from the compensation fund, 36.4 million for competitiveness (one of the smallest amount), 17.8 million for administration, 14.3 million for citizenship and 1.7 million for freedom, security and justice.

The European Commission's financial report shows that France was the main beneficiary of the last year's EU budget, receiving funds of 13.7 billion Euros. However, since the Hexagon contribution to the EU budget was 18 billion Euros, in 2009 France was a net contributor.

Moreover, Brussels shows that France, Spain, Germany and Italy are the biggest beneficiaries of the EU funds, receiving 47.3 billion Euros from the total expenditure of the EU of 116.5 billion Euros, but the percentage allocated to the four countries decreased to 45% in 2008 from 48% in 2007.

The allocations for the employment and competitiveness measures are ranked second among the EU spending, with 45.6 billion Euros that represents 40% of the budget. Greece is the main beneficiary of the Cohesion Funds, with 4.7 billion Euros, followed by Poland (4.6 billion), Spain (4.3 billion) and Italy (3.7 billion).

Ten EU countries were net contributors last year to the EU budget, namely Denmark, Germany, France, Italy, Cyprus, Netherlands, Austria, Finland, Sweden and the UK.

The Structural and Cohesion Funds allocation for 2007-2013 is shown in Figure 3:
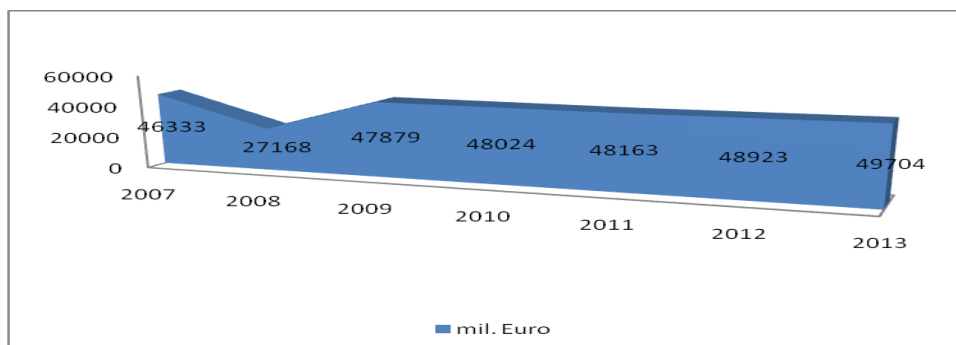

Figure 3: Distribution of EU funds for 2007-2013

The three objectives are funded differently according to priorities in the Structural and Cohesion Funds for the current programming period:

- Objective 1 is financed by the ERDF, ESF and CF;
- Objective 2 is funded by the ERDF and ESF;
- Objective 3 is funded by ERDF.

The European Commission outlines the basic guidelines aimed at the regional policy objectives for each stage of programming. Based on these guidelines, the Regions and Member States draw up multiannual regional development programs able to obtain financial assistance through the structural instruments. The budget for structural funds aims to develop specific predetermined objectives.
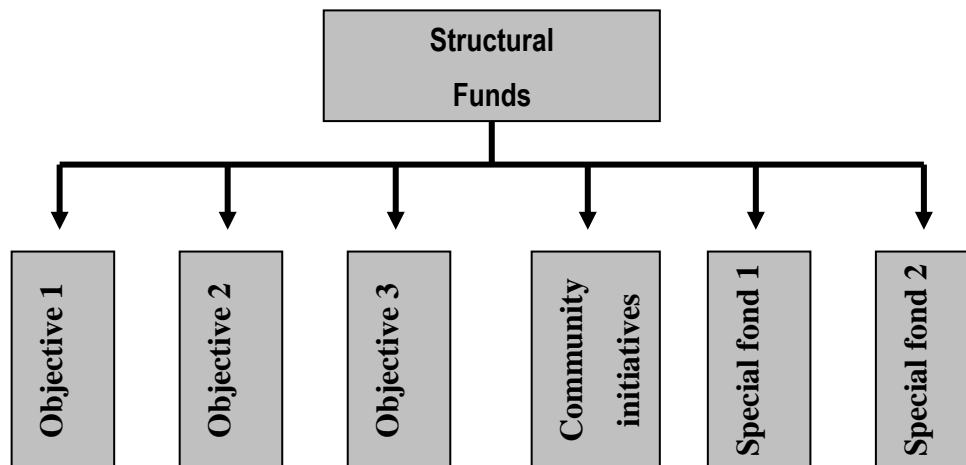

Figure 4: The Structural Funds Destinations 2007-2013

Under the Objective 1 there are regions that concentrate 22% of the EU27 population. As a result, this objective has allocated 70% of the Structural Funds.

Objective 2, although it covers 12.3% of the EU27 population, it has allocated only 11.5% from the total of the Structural Funds. These financial allocations aim at supporting economic and social conversion of areas facing structural difficulties.

A particular attention is paid to the labor factor, its qualification, ongoing training and access to employment (Objective 3). In this respect, there were allocated 12.3% of the Structural Funds.

Other objectives and activities with impact upon the regional

development have allocated 5.19% of the budget. These objectives concern: cross-border, transnational and inter-regional cooperation (INTERREG IV), sustainable development of cities and declining urban areas (Urban II), rural development through local initiatives (Leader +) and combating inequality and discrimination in labor market access (Equal) and they are known as Community Initiatives

There must be taken into account two other special allocations of the funds for adjustment in fishery structures outside the regions covered by Objective 1, with a budget of 0.5% of the total from the Structural Funds, and the support for innovative actions and technical assistance in order to promote and experiment with some new ideas for development, with a rate of 0.51% of the total resources.

The development initiatives financed by the Structural Funds must meet specific requirements identified at regional or Member States level.

In addressing the regional development policy in the EU, the focus is set on the environmental protection and the promotion of equal opportunities. Implementation is decentralized, which means that the responsibility lies entirely on the national and regional authorities.

Areas of intervention of the Structural and Cohesion Funds have been established in accordance with the Annex II of the Implementation of Structural and Cohesion Funds of the European Commission.

Thus, the data were grouped according to the specific dimensions such as: the priority theme, the financing form, economic activity and location. Consequently, for the programming period 2007 - 2013, areas of intervention of the Structural and Cohesion Funds aim at:

- research, technological development, innovation and entrepreneurship;
- transport;
- energy;
- environmental protection and risk prevention;
- tourism;
- culture;
- urban and rural regeneration;
- increasing adaptability of workers and companies, enterprises and entrepreneurs;
- increase access to employment and sustainable labor market;

- increasing social inclusion of disadvantaged people;
- improving human capital;
- investment in social infrastructure;
- mobilization for reforms in employment and inclusion;
- strengthening institutional capacity at national, regional and local levels;
- additional cost savings that hinder the development of the outermost regions;
- technical assistance.

This classification represents a solid foundation for periodic evaluations (ex-ante and ex-post) of the European Commission by each Member State.

References

1. **Bradley J.**, *Evaluating the Impact of European Union Cohesion Policy in Less-developed Countries and Regions*, in Regional Studies, Special Issue: The Evaluation of European Union Cohesion Policy, (eds.) J. Bachtler and C. Wren, 2006.
2. **Comunitades Europeas**, *La politica de cohesion 2007 – 2013*, *Comentarios y textos oficiales*, Luxemburgo: Oficina de Publicaciones Oficiales de las Comunidades Europeas, 2007.
3. **European Commission,** *Building our common future: policy and budgetary means of the enlarged Union, 2007–2013*, COM (2004)101, Brussels.
4. **European Commission**, *European Social Fund,* Brussels, 2010.
5. **European Council**, *Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999*, Brussels, 11th of July 2006.
6. **Ionescu R.,** *Dezvoltare regională,* Editura Didactică şi Pedagogică, Bucureşti, 2008.
7. **Varga Janos and Veld Janin't,** *A model-based assessment of the macroeconomic impact of EU structural funds on the new Member States*, European Commission Economic Papers no. 371, March 2009.