

## REGIONAL DEVELOPMENT: ROMANIA'S CASE

Prof. Ph.D. **Emilian M. DOBRESCU**  
Institute of National Economy, Romania  
[dobrescu@acad.ro](mailto:dobrescu@acad.ro)

Assoc. Prof. Ph.D. **Diana-Mihaela POCIOVĂLIȘTEANU**  
"Constantin Brancuși" University of Targu-Jiu, Romania  
[diana.pociovalisteanu@gmail.com](mailto:diana.pociovalisteanu@gmail.com)

### **Abstract:**

*Regional development is a concept aimed at boosting and diversifying economic activity, stimulating investment, contributing to the judicious use of human resources and quality of life. Could be applied to regional development policy were set eight development regions, which comprise all over Romania. Each development area includes several counties. Developing regions are not administrative units not having legal personality, being the result of an agreement between the county and local councils.*

**Key words:** regional development, region development, regional development policy

**JEL classification:** R00, R11, R58

### **1. GENERAL CONTEXT**

In a centralized economy, the undervaluation and underestimation of the importance of the space factor in the economic calculation resulted in an extensive growth of the productive potential and the concentration of the heavy industry in a few large enterprises located mainly in the large urban areas, the environmental protection being completely neglected. The number of active population in the agricultural area artificially lowered being attracted by the industrial activities in the urban areas. The broad phenomenon of migration of the population from rural to urban areas caused serious social disruption and a huge pressure on the cities in the process of industrialization.

Looking back at this situation, it was appreciated that the excessive emphasis placed on reducing disparities at any price, to which was added an investment policy based mainly on the availability of labor force, represented one of the causes of diminishing economic growth during the ninth decade of the past century. The growth rate of industrial production in the underdeveloped traditional counties of Romania over those two decades was impressive. In these less developed areas of the country there were registered production increased a dozen times. In the 80's less developed counties were obliged to achieve an overall level of production per inhabitant equal to the national average. This massive reallocation of resources led eventually to the slowdown of the economic growth process. It is interesting to note that despite the forced industrialization process and economic growth thus induces, traditionally poor counties of the country (Botoșani, Vaslui, Maramureș, Bistrița-Năsăud, Dolj, Olt, Giurgiu, Teleorman) continued to be affected by the population migration phenomena, which registered high levels throughout the entire period of the 70s and 80s.

With such an evolution, Romania has ended up in a situation unique in the economic landscape of central European countries. The negative consequences of this failed economic policy promoted by the unique party were felt from the early 70's; they have worsened in the 80's and were amplified after the 1990s. The harmful consequences are sensed even today when, practically, almost all the counties are facing economic, especially industrial restructuring.

## 2. CONSIDERATIONS ABOUT INTER-REGIONAL DISPARITIES

The actual situation continues to reflect the artificial conditions created during the communist regime. If we compare the situation of Romania with the EU members, or with the countries with market economies, it is observed that the level of inter-regional disparities in the case of Romania is lowered. Thus, in the process of “building” on the map of these regions resulted in the end the creation of areas with a homogenous level of development. The only notable exceptions are represented by the regions of București-Ilfov, relatively developed as compared with the others and the North – Eastern which is the least developed region economically and socially. Thus, while the average level of GDP per inhabitant in Romania is up to 22% of the European region, the reaches only 38% (at purchasing power parity), while the Northeast region only 20% of average Europe. In relative terms, this is similar to that seen in Greece, Portugal and Spain in the early 90s: a report of the discrepancy between the most developed and the least developed and a low difference in percentage terms than the European average. It is important to note that outside the Bucharest-Ilfov and Northeast that are exceptions, all other regions of Romania presents similar income levels in the context of a slightly higher level of development of the western part of the country, compared with the east.

An ad-hoc map of the regional disparities in Romania allows the spatial localization of the poverty and of the under development, in two main areas of the country: the North – East, that practically includes in full the historical region of Moldavia, and the south, respectively the most expanded agricultural area of the country – the Romanian Plain. Unlike these two areas, the West and the Center of the country are outlined as being the richer and more developed areas, from the standpoint of both the income in the population’s households and of the technical - social equipments and facilities and of the economical potential. Besides the general and global disparities, the analytics have shown a series of details, symptomatic for the tipology of the problems specific to different areas. As main conclusions, we can recall the following:

The counties with the lowest standard of living are located in the two main areas of poverty : first, in a particularly critical situation, is situated in the North - East of Moldavia and it includes the counties of Botoșani and Vaslui, and the second one in the southern plain area of the country and it comprises the counties of Teleorman, Giurgiu, Călărași and Ialomița. In regards to Botoșani and Ialomița, we can say these two counties are characterized by a general state of poverty, with scarce financial resources and high levels of infant mortality, migration and unemployment. The counties in the South, especially Călărași, Giurgiu and Teleorman are typical examples of cultural scarcity, according to sociologists, defined by low education and high infant mortality rate caused by poor sanitary conditions.

The underdevelopment of infrastructure and the poverty in the households are revealed by several typical cases, such as the one in Gorj county, characterized by a low level of development (technical and social). Next we find the situation of Hunedoara and Constanța, where the low standard of living in the households finds itself in contrast with the high level of economical activities, emphasized through specific indicators.

The study around regional disparities and their evolution must be sustained also by an analysis of the changes that occurred within the occupational structure of the population and in the sphere of entrepreneurship. These evaluations bring new aspects and significance in order to better understand regional disparities. The main correlation between economical behaviors and social aspects is represented by the decrease of job availability in the industry. The number of employees in the industrial area was reduced with more than 50% of the overall decrease recorded on the economy.

Over 45% of the companies registered in Romania are located in the 8 most developed counties, totalling 30% of the whole population. Higher values of unemployment are registered in the counties with lower development and a high rate of decrease in number of the people who work in the industry ((Bistrița-Năsăud, Botoșani, Tulcea, Vaslui etc.). In terms of spatial distribution, we can notice a classification of the spatial distribution, registering major differences between the East

and the South and the central and West area. Most of the poorly- developed counties are located in Moldavia and Muntenia, while the majority of the advanced ones are to be found in Transilvania and Banat. The historical regions of Oltenia and Maramureş are characterized by an average level of development. One of the regions least developed is around the capital, except for the strongly industrialized and urbanized area of Prahova county.

Regional disparities reach remarkable values for certain indicators, emphasizing the differences between the economical, social, technical procurement or even the overall standard of living. The most dynamic changes were distinguished among the indicators illustrating both the infrastructure and the socio-demographic categories. Economic indicators were described as having a general downfall in the past 11 years, while the ones highlighting the standard of living have increased for most of the population within the same period of time. The positive, most dynamic changes could be seen in the the growing number of owned cars and telephone subscriptions. The urbanization level, expressed as percentage of urban population in total population of a county remained relatively constant, indicating there has been no major displacement from the rural to the urban areas, nor vice-versa.

The most relevant downsize in development has registered in the counties of Mehedinţi, Caraş-Severin and Hunedoara, while Brăila, Dâmboviţa and Ialomiţa have undergone a certain growth. The maximum of stability has been acquired by both the developed regions (Sibiu, Braşov, Cluj and Timiş) and the less-developed ones (Giurgiu, Botoşani, Vaslui, Călăraşi, Teleorman). Regional dynamics in Romania can be portrayed as experiencing increased economical disparities given there has been a general decline in the national economy. Regional changes have evolved following different models in terms of household resources, infrastructure or economical structure. The production of industrial enterprises has suffered the most critical downfall, proving these structures had the least capacity to adapt to changes in the market economy. The speed of the economic reform is the one to ultimately influence the growth, faster or slower, of regional disparities.

Taking into consideration the progress Romania has achieved in adopting the community acquis and its institutional, real implementation on the ground, given its policy to support the less developed regions that are part of the Member States or acceding, the European Commission has decided give assistance in implementing the EU regional policy in our country. Beginning with 2001, Romania should receive annually, for 6 years, 100 million euro from the EU, through programs of regional development. According to the estimations done by the EU, the future regional development programs could help create approx. 50.000 new workplaces, especially in the private sector, particularly sustained by the EU. The government's contribution to conducting future programs, in partnership with the European Union will be 25% of the total EU funds.

Of the 449 projects approved for funding in the last 5 years, 261 are for developing the local initiative (over 12 million euro in funds), 107 projects address human resource training (3,4 million euro) and 81 are focused in tourism (3,6 million euro). 74% of these projects will take place in the urban environment, but what is significant is that 118 projects address the rural communities and have a total 5,4 million euro allocated, which translates into approx. 2,700 new workplaces. By the end of 2001 there have also been held investments with financial support from the EU, with 8,6 million euro dedicated to developing the local industry, tourism and human resources, sectors in which approx. 3,500 new workplaces will be created and 4,300 people will benefit from training.

Supporting regional development in Central European states to the EU has clear grounds, meaning that any acceding countries must come close to the average level of regional development of the EU Member States. We appreciate, however, that the effects of regional policy in this field are still far from the best and the expected, the institutional mechanisms being still unknown or applied at large scale, and the selection of programs being the least objective, due to strong implications of subjective factors.

Beginning with 2001, Ministry of Development and Prognosis has developed and the Government of Romania has approved by resolution the proposal regarding the concentration of PHARE 2001 – a component of economical and social cohesion – and the co-funding from the

state budget in 11 areas of industrial restructuring with economical growth potential. The population in these areas represents approximately a third of the whole population of Romania. According to PHARE regulations, from the cities belonging to the 11 areas there have been selected, prioritarily, those projects of investment in the public and private sector that are falling under the national regional development priorities according to the National Development Plan, priorities also agreed by the European Commission : development of small and medium-sized enterprises, local and regional infrastructure, social services and tourism development.

The criteria recommended by the European Commission which are found on the basis of the region identification are the following : existence of areas - geographically concentrated - with enterprises in difficulty for different reasons (closure, restructuring, privatization), with high unemployment and serious social problems, problems of environmental pollution, but as well ones that have the potential for growth.

Targeting PHARE funds, structural and cohesion funds of the EU, in the established areas sustains and completes the general program of development undergone by Romania, together with the measures taken from January 2001 for improving the business environment - by providing incentives for small and medium enterprises, development and modernization of infrastructure, accelerating privatization, intensifying social protection.

### **3. STRATEGIC PRINCIPLES AND OBJECTIVES OF THE REGIONAL DEVELOPMENT**

According to the medium-term National Development Strategy of Romania, approved in the Cabinet meeting from May 19<sup>th</sup> 2000, the strategic principles of the regional development target:

- at national level: a) promote market economy mechanisms in all regions to improve competitiveness and achieve permanent economic improvement; b) promote the harmonious development of spatial and localities network; c) increase the capacity of the regions (from an institutional, financial and decision-making point of view) to sustain their own development; d) promote sustainable development; e) create equal opportunities in terms of access to information, research and technological development, education and training
- at regional level: reduce disparities between regions, districts, urban – rural environments, central areas, peripheral areas etc.; b) prevent the occurrence of problem areas; c) coordinate regional development initiatives with national priorities and EU guidelines; d) promote differentiated policies according to regional particularities (monofunctional areas - predominantly agricultural, mining - urban areas, natural and built or protected areas, border areas, areas with environmental problems).

Regional development policy objectives, according to the same strategies, are: reduction of existing regional imbalances, stimulation of balanced development, revitalization of disadvantaged areas, prevention of new imbalances, linking regional and sectoral policies, stimulation of internal and international interregional cooperation contributing to the economic and social progress, further development of special, privileged relations between Romania and the Republic of Moldavia, strengthening the common cultural and spiritual space in accordance with the norms and values of integration in a united Europe.

The fundamental objectives of regional policy, the institutional framework, the different responsibilities of different institutions involved and specific instruments of regional development policy in Romania are set by the Law no. 151/1998 regarding the regional development in Romania.

The fundamental objective of regional development policy, as formulated by the law, is set around reducing the existing regional disparities, especially by stimulating a balanced development and by accelerating the recovery of those areas left behind in terms of development due to historical, geographical, economical and political circumstances, as well as preventing new disparities and regional imbalances. Another goal set by law refers to the correlation of sectoral

policies of the Government with local and regional initiatives and resources in order to achieve sustainable economic, social and cultural development of the regions.

These processes of stimulating regional activities, of coordinating them with governmental policies, of promoting inter-regional cooperation is an effort to correlate the country's needs and the needs of geographic regions, as well as economic and cultural.

Regional development processes are placed in the broader context of Romania's accession to the EU and, therefore, of preparation of necessary institutional structures and capacities to implement EU structural policy after accession

Within the regional policy promoted by Romania, an important role is the deprived areas policy whereby the state budget supports the economic and social development of those geographical areas whose level of development is extremely low due to the negative effects of economic restructuring and massive staff layoffs. The purpose of this policy is to revitalize the economy in those areas, by attracting investors. The massive economic decline Romania experienced after 1990 required that the national policy of regional development no longer be thought of only in terms of reducing regional disparities. This objective was accompanied by a more general one, that of supporting the restructuring of regional economy.

According to the European policy for economical and political cohesion, Romania promotes a regional policy that has set as a long-term general goal diminishing the differences in development between different regions of the country. On a short term, however, the regional policy should focus on countering the negative phenomena (loss of jobs, unemployment, etc.) that appear in the country's economical and especially industrial restructuring process.

Territorial communities, regional and local ones have not developed sufficient capacity for innovation and have not become more flexible in order to respond effectively to the challenge and the national economy's requirements for restructuring. Therefore, an important objective of Romanian regional policy is to create conditions for the development of innovative capacity of Romanian local communities, to enable them to adopt new activities that would gradually replace the old, inefficient activities, no longer required on the market, taking into account that in the conditions of economic globalization, the initiative and entrepreneurship are basic premises of regional development.

Along with the concern for the economic restructuring of the various areas, regional development policy aims to stimulate the competitive ability of different areas by stimulating their ability to adapt to new activities. In this sense it puts less emphasis on the region's ability to offer and more on the quality and the conditions of the offer, for different regions to be able to accept and develop new activities. To this end, the national policy of regional development – through its main instrument, the National Development Plan – works towards a flexible planning which requires concerted action policies on human resources training, technological development, scientific research, the development of small and medium enterprises etc.

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Flexible planning is a basic concept the national policy of regional development operates with in the current economic conditions. Alligning the structural economic changes and the territorial development is achieved through creating new activities in the territory. Both in terms of exogenous development (using foreign investment) and endogenous development (own resources), national regional development policy promoted by Romania focuses on improving the organization of new activities, acting mainly on the physical and human dimensions of the regions and subregions.

In this context, the main goal of the national regional development policy is to help the regions, counties, different areas, localities, to acquire the necessary means to become able to develop a social and cultural structure, highlighted by the quality of human resources, education

and training, as well as the economic infrastructure (road, rail, maritime, aviation, telecommunications etc.) based on a modern technological level.

Regional policy measures are planned and promoted within the institutional framework created by the central, regional and local authorities, in accordance with the principles promoted by the EU : concentration, planning, subsidiarity and partnership.

Creating a regional institutional framework and institutionalizing the eight development regions both aimed at facilitating the regional development policy. It is expected that the regional development plans designed by the Regional Development Agencies have the ability to identify the development priorities of regions and their resources, by creating an appropriate framework for achieving the development goals by implementing regional programs.

Development regions in Romania have not been designed only as planning units for the regional development policy pursued by the EU. In the same way, they are meant to promote national policy measures for regional development.

But, as shown by the experience of other countries, regional institutional system created by formation of macro-regions and the Regional Development Agencies will achieve positive results only in the existence of an active policy of regional development that has adequate financial resources.

In Romania, these resources are concentrated in the National Regional Development Fund, including internal financial resources from the state budget and European funds for regional development.

The key problems whose resolution depends on elaborating and implementing national policy measures for regional development can be summarized as follows :

- Supporting the regional economic restructuring, in the market economy, have become uncompetitive (having major structural weaknesses). We are referring to the industrialized areas found in economic decline, unable to adapt and cope with competition. They have high unemployment, underutilized production potential, technical infrastructure (including buildings) in the process of deterioration. Also, big problems are raised by areas whose economic base is largely agricultural, and which practices an obsolete type of agriculture, inefficient due to lack of appropriate facilities.
- Stimulating the best use of the combination of endogenous potential of regions, both natural resources and raw materials, as well as human resources to boost regional economies
- Ensuring environmental protection. Errors resulted in the massive industrialization period, when its influence on the environment was neglected, led to the emergence of environmental disaster areas. At the same way, environment quality is extremely poor in most cities, including the capital. For changing this state of things it is imperative to know the regional distinctiveness of this phenomenon. Combating and preventing environmental damage requires funds that are not available at regional or local level and require national support. Create and develop an institutional infrastructure pertaining to the market economy at regional level. One component of this infrastructure is the banking system, the existence of commercial banks, investments etc., to direct their funds to be used for development. It is also necessary to create a network of organizations and institutions to accelerate stock exchange of goods. If in the system of centralized economy the enterprises were subordinated hierarchically to the central sector bodies (ministries), today these bodies that would effectively coordinate the functioning of institutions at county and local levels, are missing or not fully functional. The autonomy of enterprises and creating private enterprises highlighted the need to create conditions for the development of regional and local chambers of commerce and. Also, the local government is a key factor in the administrative infrastructure. They have a role of initiator and coordinator of territorial development. Cooperation between the institutions and authorities within the three levels: local, regional, national, is the key to maximum effects. Only through this cooperation can a climate beneficial throughout the

country appear. Regional Development Agencies play a very important part in the regional institutional system, being the ones to effectively embody the regional development policy.

- Also the regional market economy needs many other institutions to fulfill important functions. Such institutions can handle consulting, marketing, training and professional training of workers, organizing publicity activities, information etc.

#### 4. CONCLUSIONS

The socio – economical analysis of the degree and potential of development, as well as of the existing issues, outline the following important aspects, that were taken in consideration in the process of structuring the Romanian policy of regional development in European context. In the process of creation and consolidation of competitive economical regional structures, there are and need to be removed some obstacles. It is necessary to grant priority to those projects of major importance for the economical development of the regions. It is imperative to adopt clear, fast measures, inclusively in the case of projects of lower importance, underregionals or even local. To be able to efficiently support the process of integration of Romania in EU and to bring our country closer to the west european countries, it is necessary to focus the financial support from the state and from the European funds on a few directions of action. We estimate that the rhythm of economical increase depends on the way in which the endogenous potential of development of the country and of each component region is conscripted, as well as on the amount of financial support granted to the development priorities established through the National Plan of Development. The processes regarding structural economical transformations need to be accompanied by appropriate social protection measures.

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