

Improving the Impact of Territorial Cooperation on Local Policies

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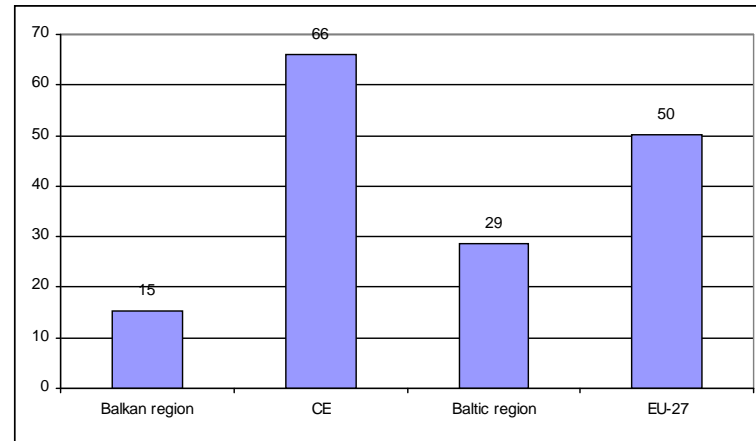
Economic and policy challenges for the SEE region

- 20 years of integration and transition in the SEE region: The experience with market dynamics and policy responses
- Drivers of growth: learning from the international experience
- EU Policies in the making: Territorial Agenda, the New Cohesion Policy and beyond
- Lessons for Territorial Cooperation in SEE

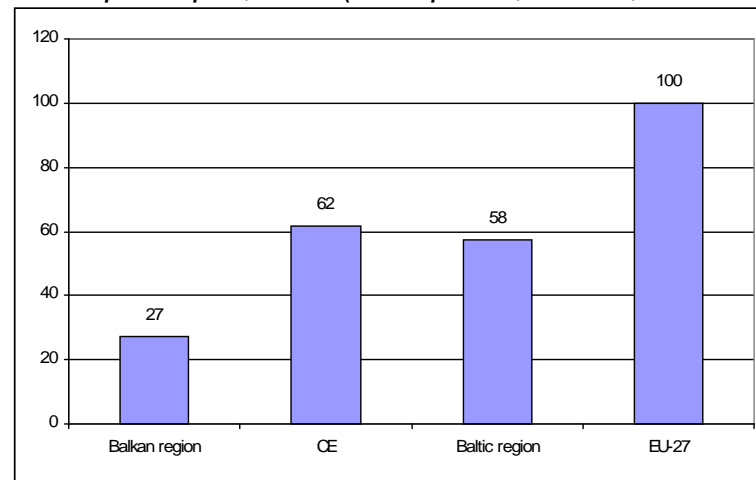
The SEE experience in the post-1989 period

- Positive GDP growth in the post-1989 period, but slower than CE, BT and EU
- Development gap with EU is maintained
- The least successful cases of transition in Europe

GDP growth, 1989-2007 (constant prices 2000)



GDP per capita, 2007 (2000 prices, in PPP, EU-27=100)

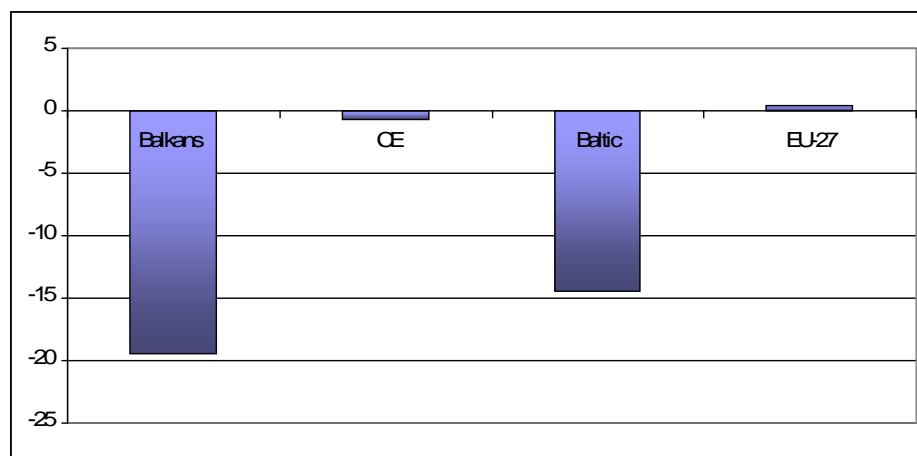


SEE Trade performance

- Trade expanded significantly in the last 20 years, but ...
- ... high and increasing trade deficits indicate a weak performance in international markets

Trade balance as a share of GDP in BC, CE, BT and EU, 1990, 1995, 2000 and 2006

<i>Regions</i>	<i>1990</i>	<i>1995</i>	<i>2000</i>	<i>2006</i>
Balkans	-4.0	-7.3	-11.6	-19.5
CE	0.2	-0.5	-9.6	-0.7
Baltic	-0.8	-6.4	-6.0	-14.4
EU-27	1.7	3.1	-0.3	0.4



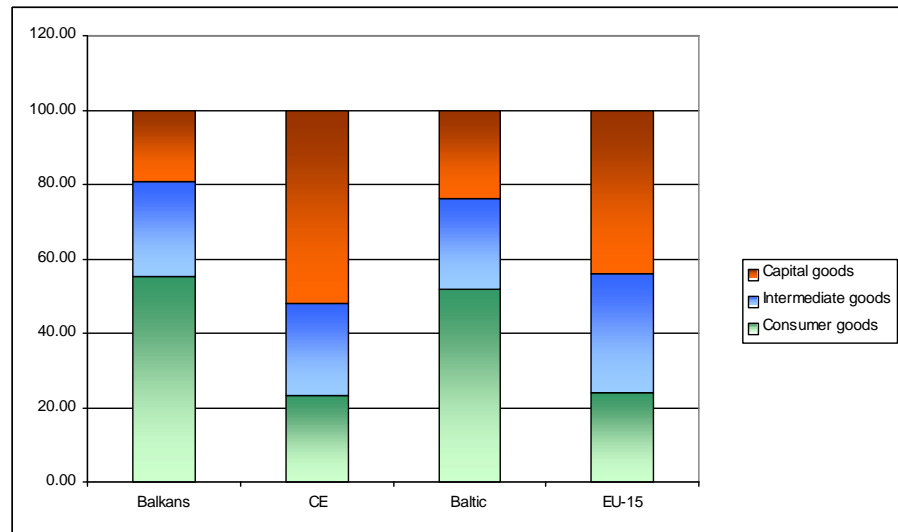
Source: World Bank (2009)

Trade structure

- Specialization in consumer goods, shift away from capital goods
- Divergence from the export structure of the EU

Sectoral composition of exports to the EU-27 by region (1999-2005)

NACE sectors	Balkans	CE	Baltic	EU-15
Consumer goods	55.35	23.38	51.88	24.04
Intermediate goods	25.33	24.51	24.28	32.12
Capital goods	19.31	52.12	23.84	43.85
<i>TOTAL</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>



Source: Eurostat (2007)

Regional integration

- Trade relations with EU15 dominate
- Weak, but increasing cross-border trade and regional trade
- Serious physical, institutional and mental barriers still restrict the expansion of regional trade

Share of exports (row) to (column) in the Balkans and the EU-15, 2008

	Albania	Bosnia	Bulgaria	Croatia	FYROM	Serbia-Mont	Romania	Greece	Balkans	EU-15	total
Albania		0.44	0.90	0.38	2.45	1.95	0.19	11.81	6.31	79.17	100.00
Bosnia	0.36		0.53	20.85	0.96	0.00	1.67	0.44	24.37	46.43	100.00
Bulgaria	0.48	0.33		0.83	2.29	4.17	7.22	9.87	15.32	46.50	100.00
Croatia	0.31	15.31	0.57		1.01	5.47	0.63	0.27	23.30	43.73	100.00
FYROM	2.16	2.37	10.12	6.55		20.43	0.82	12.47	42.44	46.99	100.00
Serbia	0.00	11.24	2.67	4.12	4.51		3.47	2.14	35.25	36.09	100.00
Romania	0.11	0.22	4.16	0.29	0.26	1.38		1.81	6.42	55.24	100.00
Greece	2.19	0.22	7.04	0.53	2.56	1.36	4.36		18.26	41.25	100.00

Source: IMF (2009)

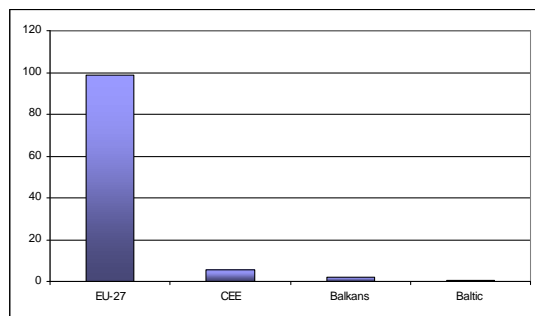
The attractiveness of the region to FDI

- Spatial selectivity of mobile investment in Europe
- FDI stock in BC is limited in absolute, relative and per capita terms
- FDI location patterns reduce prospects for convergence

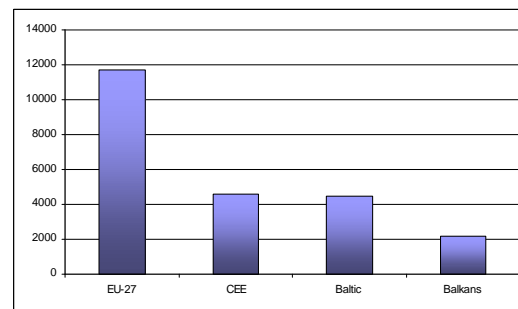
FDI inward stock in Europe, 2006

	Stock (m USD)	(%)	Stock / capita
Albania	1,284	0.02	401
Bosnia	4,748	0.09	1,249
Bulgaria	20,707	0.38	2,703
Croatia	26,812	0.49	6,094
FYROM	2,437	0.04	1,219
Romania	41,001	0.75	1,903
Serbia-M.	11,385	0.21	1,539
Greece	37,009	0.67	3,307
Balkans	108,374	1.97	2,167
CE	300,615	5.47	4,560
Baltic	31,135	0.57	4,448
EU-27	5,418,459	98.59	11,677
Europe	5,496,037	100.00	11,115

FDI regional share (Europe =100)



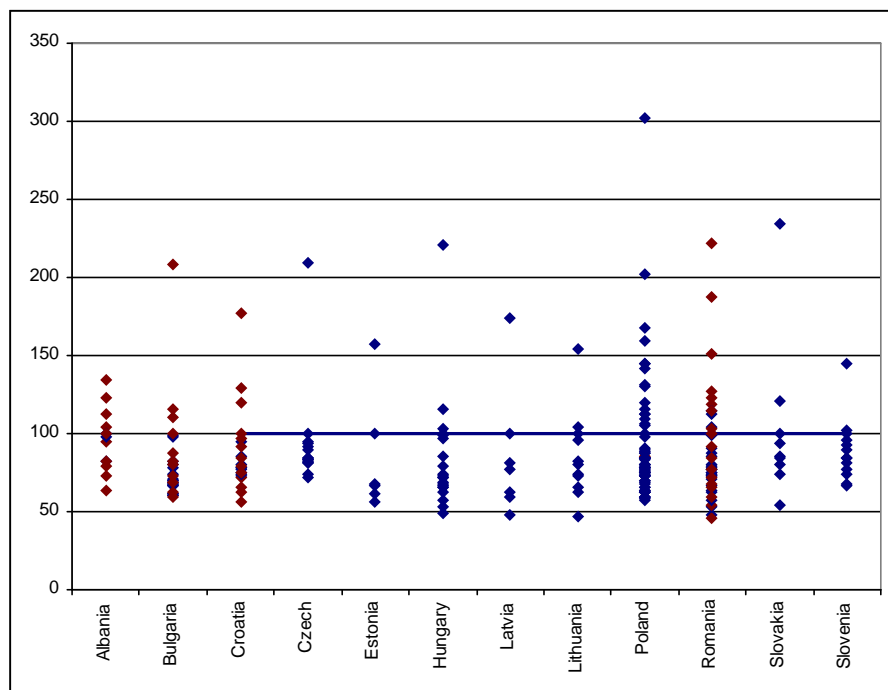
FDI per capita



Source: UNCTAD (2007)

Increasing regional inequalities

- The process of integration and transition has increased regional inequalities in most EU27 countries
- BC are among the countries with the higher levels of inequality



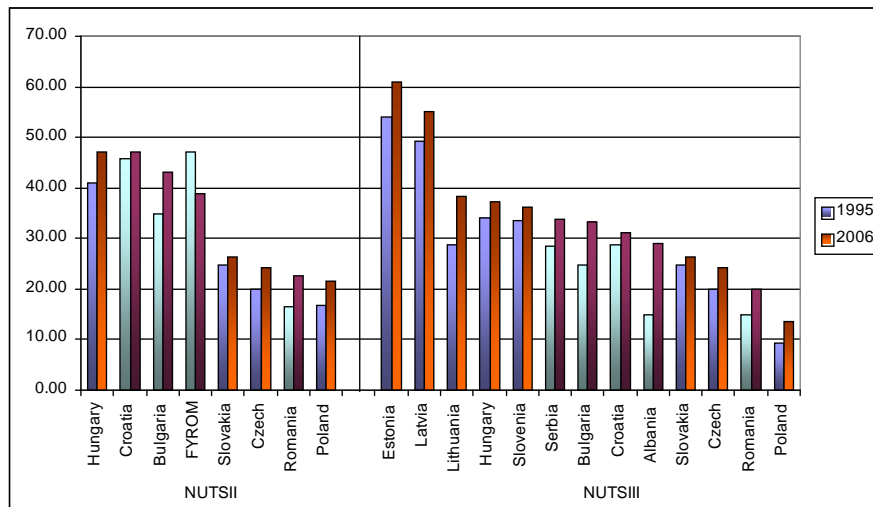
The weighted coefficient of variation of GDP per capita

countries	CV _w NUTSIII	
	1995 ^b	2005
Hungary	0,570	0,789
Latvia	0,454	0,714
UK	0,468	0,577
Bulgaria	0,395	0,569
Estonia	0,390	0,546
Slovakia	0,419	0,513
France	0,507	0,512
Romania	0,320	0,508
Greece	0,234	0,507
Poland	0,461	0,495
Portugal	0,443	0,453
Germany	0,454	0,449
Czech	0,272	0,422
Lithuania	0,160	0,374
Austria	0,413	0,359
Belgium	0,327	0,338
Slovenia	0,261	0,327
Ireland	0,265	0,322
Italy	0,303	0,312
Finland	0,231	0,298
Netherlands	0,203	0,281
Denmark	0,182	0,267
Sweden	0,170	0,251
Spain	0,213	0,198
Malta	0,121	0,159

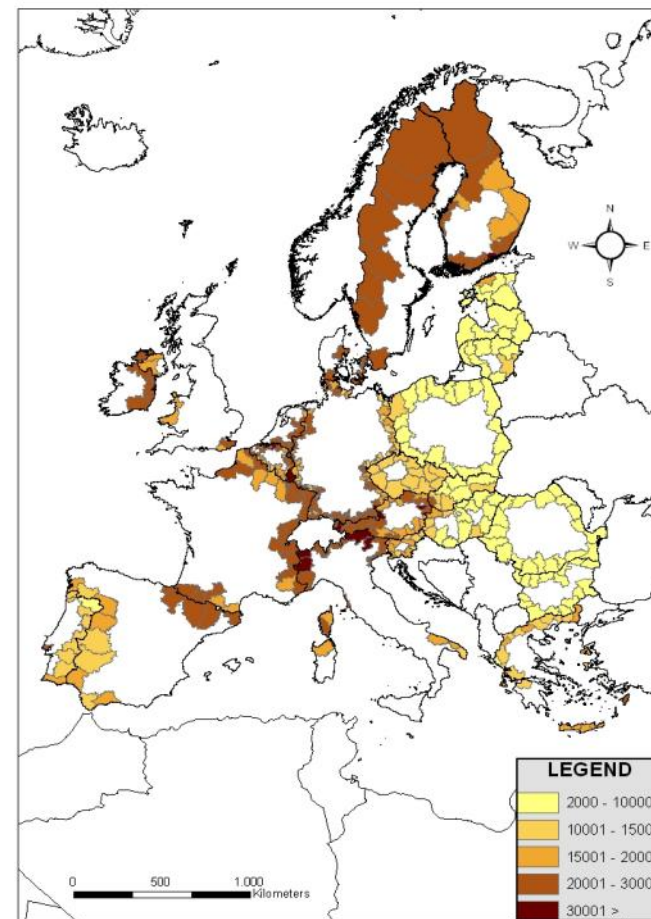
Increasing regional inequalities II

- Increasing economic dominance of metropolitan regions and...
- weak performance of most border regions are contributing to...
- higher levels of spatial imbalances in BC countries

Share of the metropolitan GDP in 1995 and 2006



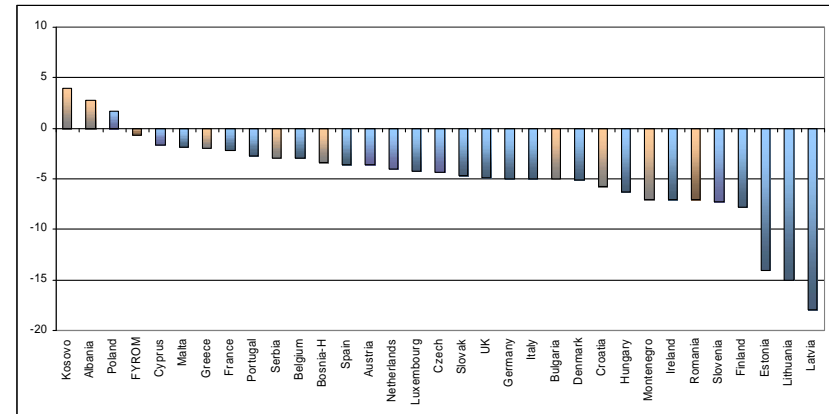
GDP per capita of Border regions



The financial crisis in SEE

- Sharp decline of GDP growth rates in 2009-2010
- Serious GDP contractions in a number of countries
- Almost 50% decline in FDI flows in the region
- Sharp decline in remittances (on average 15% of GDP)
- Huge current account deficits

GDP growth, 2010



IMF(2009)

Falling behind again?

- Significant increase in public spending is no longer possible due to high debts...
- Limited bank credit
- Return of IMF in the region
- After 20 years of adjustment and reform with enormous social costs the SEE region is faced again with a serious crisis

Explaining the integration–transition performance of SEE

- Initial conditions: Lower initial level of economic development compared to CE, lower prior exposure to international economy, unresolved ethnic problems, nationalism, war
- Geography: lower accessibility and connectivity with the EU core markets and highly fragmented economic space with limited intra-Balkan interaction, networks, spillovers and multiplier effects
- Market failures: Some places with unfavorable characteristics were largely ignored by capital markets and abandoned by people, while others with weak institutions developed inferior structures and ‘Far West’ type of free markets
- Policy failures: *One-size-fits-all policies of transition* failed to realize that multi-speed and multi-direction transition processes in Europe required a differentiated mix, strength and time plan of policies

Understanding economic performance: The drivers of regional growth

- Agglomeration economies: clusters of activities
- Geography – Accessibility – Connectivity
- Integration
- Human capital – Knowledge economy – Innovation
- Specialization – Diversification – Structural change
- Urban and social infrastructure
- Environmental quality
- Administrative quality and efficiency
- Critical scale of activities
- Home market effects
- Spatial and sectoral policies
- Institutional setting
- Cultural characteristics
- No single recipe exists: different places may need a different mix (or intensity) of drivers in order to promote growth

EU policies and debates

- Budget reform and financial perspectives: which way?
- Territorial Agenda: geography matters
- Place-based approach to policy (local knowledge, characteristics and linkages are taken into account)
- Territorial cooperation may receive more attention and more funding
- Barca Report for the Reform of Cohesion Policy (strong and weak aspects)

Implications for theory and policy

- Most drivers of growth tend to favor central and advanced regions, but not necessarily weak and peripheral ones
- Economic progress has been relatively selective, indicating that there are limits to the ability of markets and existing policies to generate cohesion
- A mixed process of inclusion - exclusion, convergence - divergence makes the European economic space as heterogeneous as ever
- Understanding performance in weak regions may require special attention. Learning from failure may be equally important to learning from success

Implications for theory and policy

- Increasing regional inequalities imply that there is a need for a return of development in the International and European policy agenda
- 'Successful regional policies' - based on the experience of successful regions - do not seem to always work in weak and diverging regions
- Although learning from success is important, dogmatic one-size-fits-all policies should be avoided, as advanced and less advanced areas have different needs, priorities and policy environments
- Learning from failure is equally important to learning from success. However, this experience is practically unused in the design of development policies

Responses to SEE Territorial Cooperation challenges and steps ahead

- SEE remains a largely fragmented economic and social space that has experienced a multi-speed and multi-direction integration process
- Policies need to prioritize the excluded and the falling behind
- Respond to crisis in a fast and pro-active way
- Link territorial cooperation programs to local development strategies and policies
- Allow for variety: No single path or a priori mix of tools for every place exists
- Make place based approach more explicit in cooperation programs
- Simplify operation and control procedures

Responses to SEE Territorial Cooperation challenges and steps ahead II

- Thematic fields related to development policies need to be of high priority in a weak region facing the consequences of the crisis
- Any knowledge gained in this field has a high value added. Projects promoting:
 - competitiveness and attractiveness of the region
 - best practices in local and regional development management
 - transfer of know-how in policies of sustainability
 - human capital development and employment growth policies
 - transnational infrastructure planning
 - restructuring weak industrial and economic bases
 - transforming urban and regional economic and social landscapes
 - cooperation in natural and cultural heritage and
 - tourism development

can be important lines of action with important contribution to the growth performance of the region.

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