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THE GLOBAL ECONOMIC CRISIS AND THE FUTURE OF EUROPEAN INTEGRATION

COMPETITIVE DEVELOPMENT OF EUROPEAN MACROREGIONS

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Abstract: *EU defines economic and social convergence in terms of reducing regional disparities in European countries development levels, measured, usually through GDP per capita in purchasing power parity. In this context, regional development policy concept of complementarity is mainly based on the idea that the investment funds of the European countries and regions should be mainly directed to regional infrastructure, human capital development as well as R & D and non-profit economic activity. Complementarity means that EU funds should not replace, but supplement national and regional funds and programmes.*

Key words: *Regional development policy, real convergence, complementarity.*

In the Treaty on European Community establishing economic and social convergence are defined in terms of reducing regional disparities in European countries development levels, measured, usually through GDP per capita in purchasing power parity. In this context, regional development policy concept of complementarity is mainly based on the idea that the investment funds of the European countries and regions should be mainly directed to regional infrastructure, human capital development as well as R & D and non-profit economic activity.

There were works of V. Andriychuk, O. Bilorus, I. Burakovskyy, V. Budkin, O. Vlasyuk, V. Heyts, D. Luk'yanenko, Yu. Makohon, M. Nikitina, A. Filipenko, V. Chuzhykov and many others dedicated to research issues shaping the European model of regional development.

Ideas of creating common European regional area are reflected in the works of R. Barnett, V. Boru, Yu. Vannop, A. Williams, B. Yohanson, M. Keating, M. McGinnis, G. MacLeid, H. Patsy, A. Rodrigues-Pose, V. Salet, J. Sima, K. Stanlberg, M. Storper, M. Telo, A. Faluzi, R. Hadson, S. Hardi, M. Hart and others.

Complementarity means that EU funds should not replace, but supplement national and regional funds and programmes. One of the general principles of projects financing

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from EU funds is Member States (or their regions) participation in the co-financing of these assets.

Thus, additional funding amount is based on the needs for investments in regional infrastructure, human capital and non-profit economic activities of the country or region on the one side, and the actual (or planned) co-financing by the country or region with the EU - on the other side.

Complementarity is a key principle that makes the basis of the majority of EU countries infrastructure funding projects such as new roads and bridges construction or support projects aimed to create new jobs in the context of EU cohesion policy.

Arguably, within the concept of complementarity EU funds do not directly replace national or regional investment in physical infrastructure, education, training, knowledge economy and environment sustainability projects, but serve as an additional source of funding for such projects that are initiated at national and regional levels [3].

According to Edervin research [4] EU funds may displace "backward regions" national funding on average by 17%, despite co-financing requirements of the national or regional governments.

The general rule for the provision of additional investment funds of the EU is distribution of financing from national sources of investment 50/50 (fifty-fifty).

This so-called principle of "matching funding" is focused on providing complementary relationship. For projects implemented in poor regions, EU contribution makes 85% of the total cost. The primary differences logic in co-financing amount of national governments within EU is simple. National and regional governments of less developed EU countries do not have the funds for co-financing of projects and programmes. In this regard, high proportion of co-financing requirements may prevent the channeling of funds to these regions. Lower rates of co-financing shall stimulate economic growth in the poorest regions. [4]

Effectiveness of complementarity is often measured in terms of projects common policy outcomes compared with the situation "without projects" EU [1].

This type of policy evaluation has traditionally been a difficult task. Many of these evaluations were conducted on the basis of experimental approaches and models that include the construction of hypotheses suggesting the possible scenarios of the situation in the absence of an existing regional project [5].

Thus, "the specific models of relevant policy areas have been developed and are being modeled in various degrees of difficulty, based on the objectives of the impact assessment of projects on these or other indicators of economic and social development of regions [such as economic growth, unemployment rate, the volume of trade, technology and innovation development, economic transformations and so on.] "[3].

However, despite the large number of complementary policies studies, there is no clear consensus on the impact of cohesion policy of EU regions in their economic growth. [4]

On the other hand, according to the European Commission [5], the verification of the policy complementarity effectiveness occurs when there is real support for "national social structures" (i.e. EU spending programmes costs are complemented by national member states, similar to those that are supported with EU structural funds).

Most studies dedicated to the evaluation of non-systematic differences in complementarity that have been adopted for certain regions of EU, as well as how such differentiation can be justified in the context of EU association policy.

Preferably reaching effects of complementarity and its varying degrees from one region to another depends on the role played by EU structural funds.

The role of structural funds can be considered in three types of planes Policy.

Regarding the role of resource distribution policy, the main problems are caused by rapid market integration, EU enlargement, new technology and demographic changes that lead to the restructuring of economic activity in the field [4].

Without an active regional policy with EU support poor and peripheral regions may lose their competitive edge, get declining employment and social cohesion. To solve this problem of economic inequality between rich and poor regions, the necessary financial transfers are given from rich to poor. However, this type of redistributive policy is to stimulate endogenous economic growth in poor regions. Thus, a high degree of complementarity and a large proportion of EU funds in the financing of projects is justified. In addition, the mechanism of redistribution policy is designed to ensure a fair and reasonable allocation of funds from EU budget to the budgets of member states. As noted by Barnett and Bohr: "The fact that the structural funds come into the state treasury and not directly to the regions, is another aspect of the compromise" [3].

It may also be noted that EU provides a higher proportion of additional funds for backward regions in terms of the local labor market. A higher share of services in employment favors reduction in funding, while the higher long-term trends in unemployment in some countries and regions involve the use of a higher complementarity level.

Convergence policy in EU is constantly reforming. For example, in EU-15 to EU-25 expansion in the period 2000-2006 regional disparities significantly increased in income and employment in EU, as the average per capita GDP in the ten new member states was less than half the average EU as a whole, and only about 55% of the population were in active employment from around 65% in EU-15.

In general, the budget for 2000-2006, EU cohesion policy made 213 billion Euros for the EU-15 has been allocated an additional 22 billion Euros exclusively for the new Member States for the period 2004-2006 [5].

EU policy is focused on three strategic objectives:

- to promote the development and structural transformation in the regions where per capita GDP is less than 75% of EU average;
- to support economic and social reforms in the areas experiencing structural difficulties;
- to encourage the adaptation and modernization of policies and systems of education, training and employment.

Priority areas for support, based on priority (objective) 1, cover 37% of the total EU-25 population (about 170 million people). Financial resources provided by such EU Structural Funds: the European Regional Development Fund (ERDF), European Social Fund (ESF), the European Foundation for guidance and guarantees in agriculture (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG), was about 150 billion in the period 2000-2006, also there were allocated an additional 25 billion Euros in two new territories of the Member States that have the right to the highest attainable level of support from the structural Funds and the Cohesion Fund.

About 40% of the 175 billion Euros of the Cohesion Fund were spent for infrastructure, of which about half were allocated to transport and one third for the environment. In addition, about 34 and 25% of 175 billion Euros were allocated to create a productive environment for enterprises and human resource development respectively.

More than 15% of EU-25 (i.e. 70 million people) live in the regions that belong to the priority objectives 2. The financing of these programs European Regional Development Fund and European Social Fund in the period 2000-2006 made about 23 billion Euros. Of the total funding of about 55% was spent on productive environment for the small and medium enterprises in these regions, 24% of the physical and environmental regeneration of former industrial sites, and the other 21% - development of human resources.

EU leaders Lisbon Treaty was signed at a summit in Lisbon in March 2000 to increase the competitiveness of EU by supporting economic development, based on knowledge of the economic reforms and the pace of investment growth.

In this regard European Commission (2007) attaches great importance to the fact that cohesion policy must be coordinated with the objectives of the Lisbon strategy to promote growth and employment.

Financial support of EU structural funds continues to concentrate on infrastructure and human capital development with a focus on the priority of the Lisbon strategy, i.e. Economy based on knowledge.

In the context of the "new" association policy about 347 billion Euros over the period from 2007 to 2013 has been allocated to support regional growth and stimulate job creation. More than 80% of the total funds (i.e., 283 billion Euros) aimed at "convergence" regions in terms of GDP per capita of less than 75% of the EU average. These regions account for 35% of the total EU population.

There are about 55 billion Euros allocated for objective 2 and 3 in programs supporting regional competitiveness and employment. Additionally 8.7 billion Euros allocated for the development of cross-border, transnational and interregional cooperation under the European Territorial Cooperation programs.

European Regional Development Fund promotes programs on regional development issues, economic change, enhanced competitiveness and territorial cooperation throughout the EU, while the Cohesion Fund mainly supports transport and environmental infrastructure and energy efficiency projects and renewable energy in Member States where the gross national income (GNI) is lower than 90% of the EU average.

European Regional Development Fund actions are focused on convergence objectives, aimed at infrastructure strengthening, economic competitiveness, research, innovation and sustainable regional development.

European Regional Development Fund establishes three priorities for competitiveness objectives: innovation and economy knowledge, environment and risk prevention, as well as distant regions access to communication networks, transport and communication.

European Social Fund provides support for the prediction and the regulation of economic and social change throughout EU within the framework of Convergence programs and Regional Competitiveness as well as objectives in the area of employment.

Four main areas of actions:

- adaptability of workers and enterprises improving,
- increasing of access to employment and participation in the labor market;
- social inclusion strengthening against discrimination and facilitating access to the labor market for underprivileged people
- promotion of reform in employment and integration.

In accordance to the convergence objective European Social Fund supports efforts to improve education and training, as well as assisting in the development of institutional capacity and the efficiency of public administrations.

Key investment areas and their relative shares of funding on all association policy programs are divided as follows:

Knowledge and innovation: almost 83 billion Euros (24% of 347 billion Euros) goes to research centers and infrastructure, technology transfer and innovation in firms, and the development and dissemination of information and communication technologies;

Shipping: about 76 billion Euros (22%) were allocated to improve access regions supporting trans-European networks, investing in environmentally sustainable transport, particularly in urban areas;

Environmental protection and risk prevention: an investment of about 51 billion Euros (19%) to finance infrastructure waste, decontamination of land to prepare it for new economic use, and protection from environmental risks;

Human Resources: about 76 billion Euros (22%) allocated to education, training programs, employment and social cohesion, funded by the European Social Fund. Another area of influence is to promote entrepreneurship, energy networks and efficiency, urban and rural regeneration, tourism, culture and strengthen the institutional capacity of government (European Commission, 2008).

Cohesion Policy in the European Union aimed for modernizing national and regional economies, supporting innovation and job creation, research and development, labor markets and human resources, building networks of key infrastructure, environmental protection, increased social engagement and good governance.

The effectiveness of policy implementation has become particularly important since 2008. The context for cohesion policy programs has changed due to the economic downturn. In 2008, GDP growth in EU fell by 0.3%, but in 2009, decline of more than 4%. In 2010 and 2011 EU returned to positive growth, but further slowdown continued in 2012.

Extremely sharp decline was observed in the Baltic States, Greece, Ireland, Portugal and Spain. The Baltic countries and Ireland have managed to overcome the crisis processes and return to positive growth trends. Portugal and Spain in 2012 were still at the stage of decline. Positive growth in these countries according to the forecasts is expected only since 2014. Cyprus and Greece face a drop in GDP that lasts.

Employment significantly reduced in EU since 2008. Over the last five years 6 million jobs were cut. After a brief recovery in early 2010, these cuts have been going on since the mid-2011. Level of employment in the fourth quarter of 2012 was below by 0.4% at the same period in 2011.

In January 2013 unemployment reached 10.8% compared with 8.1% in January 2009.

Recent data show clear differences in these indicators among the EU member states, especially between North and South Eurozone. The difference in unemployment rates between the two regions was 3.5 points in 2000, in 2007 it was zero, and in December 2012 it increased to 10.5 points. Differentiation between the highest and lowest unemployment was 4.9% in January 2013 and 27.0% in November 2012 it was the highest. Weakening economic activity continues to affect the labor market. It is expected that the unemployment rate in EU in 2013-2014 will increase to 11%.

The economic downturn causes deterioration of business climate and reduces the propensity to consume. Total investments dropped from 21% of GDP in 2008 to 18% in 2012, exports of goods and services and foreign direct investments dropped sharply in 2009 and their former level is not restored up to now.

The negative effects of the crisis were not simultaneous and equal in scale to all Member States, regions and cities. Many national reports show recessionary trends, but different time of occurrence and intensity of expression.

Some projects and programs need innovation and financial support. At the same time requiring more support all areas of public policy such as intervention in the labor market, supporting business activity, access to financing for small and medium businesses. Many programmes are facing the problem of declining national or regional co-financing directed to the distribution of risks and costs.

Financial consolidation to date has primary importance for EU investment policy: reduction of this index for 2009-2011 averaged 12%, which is particularly reflected in the investment market Bulgaria, Romania, Spain, Greece and Portugal. Support for the European Regional Development Fund and the Cohesion Fund in the EU-12 made more than a third of annual government capital expenditures. About half of the funds generated by contributions from member states, was spent on investments in 8 of 12 countries - new EU members, and nearly a third were given to Greece and Portugal. The same resources in terms of funding were provided by the program convergence regions in Spain and Italy.

To meet the challenges of the crisis, the EU institutions have to quickly mobilize all the financial instruments and adapt their policies at reducing the effects of the crisis.

Nearly 36 billion Euros, or 11% of total assets, were refocused to address the urgent problems of countries and regions by strengthening financial investments, including more than 30 billion Euros from the European Regional Development Fund and 5.5 billion Euros from the EU Cohesion Fund.

Main changes touched the growth of innovation and R & D, expansion of business activity, energy saving technologies and renewable energy, cultural and social infrastructure, roads and the labor market. Reduced funding has affected ICT services, software environment, development of transport and education, and public administration.

While reports show the crisis to be the main reason for the difficulties, some studies identify the factors that led to it. These include delays in the start of the program of regional development, disparity of management resources requirements of infrastructure development priority projects, changes in legislation, inconsistent political power (changes in the national and regional governments, changes in institutional structures) and the effects of national sectoral reforms.

Cohesion policy programs were designed on the need to promote the Lisbon Strategy for growth and employment support. Lisbon Strategy in 2010, the strategy "Europe 2020" was defined as successful and therefore was determined by the continuity of the previous development goals.

Most of EU member countries state the launch of new investment strategies and the continuation of strategic objectives adaptation policy for crisis socio-economic priorities.

Several national reports inform that the EU cohesion policy instruments supporting public investment in vital economic sectors such as research and development, support for SMEs, energy-saving technologies and alternative energy, industrial development, social inclusion, reforms in education and training systems, employment.

Financial instruments were used in all Member States during the drop period of the financial sector. At the end of 2011 there has been invested more than 8.9 billion EUR (4,4% of total financing of the European Regional Development Fund) under the programs of unity in the financial instruments of companies.

Value of the European Social Fund in overcoming the crisis depends on its role in supporting labor market. For most affected by the crisis EU Member States, the European Social Fund has become the main source of support for active labor market policies.

In 2011 the programs and projects financed by European funds, achieved the following results:

- There have been created nearly 400,000 jobs (190,000 of them since 2010) including more than 15,600 research jobs (9500 from 2010) and more than 167,000 jobs as well as in small and medium business (69,100 since 2010), the biggest number of new jobs were created in UK, Italy, Germany, Spain, Poland and Hungary. This demonstrates the positive results of cohesion policy;
- There was given support to 53,240 projects in the field of research and technological development, as well as 16,000 projects in the field of cooperation between enterprises and research institutions;
- There have been received support of 53,160 start-ups (28,000 since 2010), mainly in the EU-15, but with a significant proportion in Hungary and Poland;

- About 1.9 million people have access to high speed internet (mostly in Spain, France, Italy);
- Since 2007 there have been done 1222 megawatts of additional electricity from renewable sources mainly in the EU-15;
- 2.6 million people served by water supply projects and 5.7 million people are served by projects supplying water to desert areas;
- There has been launched more than 5,000 transportation projects: 460 km. Ten - T roads and 334 km. Ten - T rail;
- About 3.4 million people gained access to improved public transport;
- Over 19,000 projects of educational infrastructure have received support, the benefits of which were 3.4 million students, mostly in Italy, with significant results as in Bulgaria, Spain and Greece.

In 2009-2010 there has been significant increase in the number of participants and projects funded by the European Social Fund programs (from 10 to more than 15 million participants annually). Profile reflects differences in national circumstances and priorities by the European Social Fund.

So far it is impossible to evaluate the overall results for all participating countries received support from pan-European funds and programs. However, the learning experience and outcomes of regional development programs show that in many cases with interventions formed a critical mass which make it possible to leap forward in national or regional policy and development.

Construction of roads, maintenance of business activity, development of social infrastructure, cultural heritage and tourism are the key areas of project implementation. Higher than average levels of priority projects were in the field of innovation and research and development.

Cumulative data of the European Regional Development Fund and the Cohesion Fund demonstrated positive effects in economic modernization and competitiveness. Built-in flexibility cohesion policy aims to address regional and national problems in the context of the current crisis. The political debate increasingly affecting the priorities for future programs. In some Member States there is a significant lag in innovation and research and development, road construction, IT services, electricity and public administration.

One of implementation examples of support sector-points of growth selective policy of the national economy in Ukraine is the program "National Projects" multiplier effects on sales achieved through the implementation of the principle of complementarity and co-financing in the framework of public-private partnerships.

The priority areas of the program "National Projects" include: new energy, new quality of life, new infrastructure, Olympic Hope - 2022 agricultural perspective.

Within these priorities public support for economic reforms Committee approved the concept of "national projects" [6]:

«LNG Ukraine" - the infrastructure for liquefied gas in Ukraine;

"Energy of Nature" - construction of wind, solar and small hydro power plants, the production of alternative solid fuels;

"Affordable housing" - system of integrated projects of affordable housing;

"New Life" - New quality of maternity and childhood;

"Clean City" - system for the processing of municipal solid waste;

"Quality Water" - Ukraine provision of quality drinking water;

"Open World" - creation of information and communication network at the national level based on radio access technology of the fourth generation (4G);

"City of the Future" - the formation of a strategic plan and project development;

"In time assistance" - the single regional operational dispatching services using modern GPS-technology to reduce the time of arrival of ambulance crews to the patient;

"Air Express" - passenger rail Kyiv - the international airport "Borispol" construction and other infrastructure of Kyiv region;

"The Danube Region" - the development of transport and shipping in the Danube region;

"Industrial Park" - the creation of industrial production infrastructure;

"Technopolis" - infrastructure innovation and high technology;

Creating sport and tourism infrastructure;

"Grain of Ukraine" - a program of grain with high production and economic performance;

"Recovered cattle" - development of grain production with high production and economic performance;

"Green Markets" - a network of regional wholesale food markets.

As international experience shows, in today's development of innovative dynamism, the importance of this component in the formation of national competitiveness in a globalized world has increased, at the same time limited investment resources, both public and private sources of funding to achieve qualitative changes in the structure of the national economy towards the implementation of innovative models of development are allowed only on one side informed choice of sectors that can provide the maximum multiplier effects for innovative breakthrough state, on the other side by combining sources of funding for such projects based on public-private partnership and the principle of complementarity.

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RAZVOJ KONKURENTNOSTI EVROPSKIH MAKROREGIONA

Rezime: *EU definiše ekonomsku i društvenu konvergenciju kroz ublažavanje regionalnih dispariteta u stepenu razvijenosti država Evrope, a koja se obično sagledava preko GDP per capita na osnovu pariteta kupovne moći. U tom smislu, koncept komplementarnosti kao koncept regionalne politike razvoja, uglavnom je zasnovan na ideji da investicione fondove Evropskih država i regiona treba usmeriti ka regionalnoj infrastrukturi, razvoju humanog kapitala, kao i oblasti istraživanja i razvoja i neprofitne ekonomske aktivnosti. Komplementarnost ovde označava da EU fondovi ne bi trebalo da zamene već da upotpune nacionalne i regionalne fondove i programe.*

Ključne reči: *Regionalna politika razvoja, realna konvergencija, komplementarnost.*