Teacher Notes

AS 91242 Demonstrate geographic understanding of differences in development

Case Study: From East to West – Development differences in the European Union

Notes on the possible use of this resource:

This unit is designed to provide case study material for AS 91242 “Demonstrate geographic understanding of differences in development”. It starts by examining the differences in development between member states in the EU and then goes on to explore the reasons why Sweden and Romania have such differences. It then looks at ways that the European Union has attempted to reduce the differences within the EU region.

Subject Area: Geography

Conceptual Strand:

Place and Environment - Students learn about how people perceive, represent, interpret, and interact with places and environments. They come to understand the relationships that exist between people and the environment.

Achievement Objective(s):

Level 7:

- Understand how people’s perceptions of and interactions with natural and cultural environments differ and have changed over time.

- Understand how the processes that shape natural and cultural environments change over time, vary in scale and from place to place, and create spatial patterns.

Geographic Concept(s):

Perspectives:

The way people view and interpret environments. Perspectives and values may be influenced by culture, environment, social systems, technology, economic and political ideology. They may influence how people interact with environments and the decisions and responses that they make.

Patterns:

May be spatial: the arrangement of features on the earth’s surface; or temporal: how characteristics differ over time in recognisable ways.

Skills:

- Geographic resource interpretation skills – Interpret information on a statistical map, interpretation of written material.
- Geographic resource construction skills – Construction of a Choropleth map, construction of a scatter graph
- Communication skills – writing paragraphs
Case Study: From East to West – Development differences in the European Union

Characteristics and measurement of development in the EU

- Development is measured using various ‘indicators of development’

- Indicators can be divided into two different types:
  - Quantitative – these are indicators which are obtained by using statistical analysis of data in the form of numbers. They are also called objective indicators. Examples include life expectancy, GDP per capita and unemployment.
  - Qualitative – these are indicators which are obtained by using data such as surveys, polls which have a measure of opinion in them. They are also called subjective indicators. Examples include happiness, corruption and discrimination.

- Indicators can also be divided into a number of different categories:
  - Health e.g. infant mortality rates
  - Education e.g. literacy rates
  - Employment e.g. unemployment rates
  - Population e.g. fertility rates
  - Economic e.g. GNP per capita
  - Social e.g. discrimination
  - Political e.g. voting rights
  - Sustainability e.g. greenhouse gas emissions

Activity: What are the different levels of development within the EU?

1. The chart below shows three development indicators for the 27 EU countries. Fill in the missing columns (1 to 6) using the following instructions

   1. Columns 1 to 3 - rank the indicators from best (highest number) to worst (lowest number). Give the highest number a 1 and the lowest a 28.
   2. Column 4 - add up columns 1 to 3
   3. Column 5 - rank the numbers as you did for columns 1 to 3 (1 will be the lowest number and 28 the highest)
   4. Column 6 Divide the countries into three different categories – high, medium and low development. Write an H, M or L in each row according to how you ranked the country.

   **NOTE:** it is important to remember that this is a ranking **within Europe only** and all of these countries would be considered to have very high or high levels of development if we compared all countries globally.
Purchasing Power Standards (PPS) is an index measure which means that it is expressed in relation to the EU average set to equal 100. Basic figures are expressed in PPS, i.e. converted to a common currency that eliminates the differences in price levels between countries. Thus, if the index of GDP per capita in one country is 110, while that of the EU27 is set at 100, the volume of GDP per capita in that country is 10 percent higher than in the EU27 as a whole.

Human Development Index (HDI) is a tool developed by the United Nations to measure and rank countries’ levels of social and economic development based on four criteria: Life expectancy at birth, mean years of schooling, expected years of schooling and gross national income per capita.

Life expectancy at birth is the average number of years a newborn could expect to live.

2. On the outline map of the EU below draw a choropleth map to show the information in column 6 of the chart on the previous page.
2. On the outline map of the EU below draw a choropleth map to show the information in column 6 of the chart on the previous page.

Title: ____________________________________________________________

Key

- High level of development within Europe
- Medium level of development within Europe
- Low level of development within Europe

3. Describe the pattern of development which is shown on the map you have drawn.

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

4. Can you suggest any reasons for the pattern of development that you identified in your map?

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
Relationship between indicators of development

Let’s explore the relationship between wealth and HDI by drawing a scatter graph of GDP per capita PPP and life expectancy from the chart you have just completed in the frame provided below.

Remember that you generally put the dependent variable on the Y axis and the independent variable on the X axis. In this case we would consider that life expectancy would be dependent on wealth. However, it is important to remember that a scatter graph can only tell us the degree of relationship between the variable NOT that one causes the other.

Title: ____________________________________________________________

Describe the relationship shown on your graph

_________________________________________________________________

_________________________________________________________________

_________________________________________________________________

Suggest a reason(s) for the relationship shown on your graph

_________________________________________________________________

_________________________________________________________________

_________________________________________________________________
We will examine two countries at different levels of development as case studies to help us understand the reasons for these patterns you have identified.

**Sweden – a highly developed country in the EU**  
**Romania – a poorly developed country in the EU**

Use the internet to find the following indicators of development for these two countries (the CIA World Factbook found at https://www.cia.gov/library/publications/the-world-factbook/index.html is a good site for this).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Sweden</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita PPP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infant mortality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Literacy rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% labour force in agriculture</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Using information from the table above compare the level of development of Sweden and Romania
Factors contributing to differences in EU development

The factors which have contributed to the differences in development in our case study countries can be classified as **natural** or **cultural**. In our case studies of Romania and Sweden we will look

<table>
<thead>
<tr>
<th>Factors contributing to Sweden’s relatively high level of development</th>
<th>Natural Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Materials</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>Environmental conditions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cultural Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialisation</td>
</tr>
</tbody>
</table>
Government Policy

Free Trade

<table>
<thead>
<tr>
<th>Factors contributing to Romania’s relatively low level of development</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Natural Factors</strong></td>
</tr>
<tr>
<td>Raw Materials</td>
</tr>
<tr>
<td>Location</td>
</tr>
<tr>
<td>Environmental conditions</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Agricultural Stagnation</td>
</tr>
<tr>
<td>Corruption</td>
</tr>
<tr>
<td>Government Policy</td>
</tr>
</tbody>
</table>
Chose the **ONE** factor for EACH country which you believe has been the most influential in creating the different levels of development.
Aspect Four: Strategies used in the EU for reducing the differences in development

Article 3 of the Treaty on European Union states that "The Union shall promote economic, social and territorial cohesion, and solidarity among Member States".

Fully explain how the European Union has worked to reducing the differences in development with the European Union through its Regional Development Programme in Romania.
Resource Booklet: East meets West – Differences in development in the EU

Resource 1: Sweden Develops a Modern Economy

Agricultural toward Industrial

In the mid-1850s, Sweden was a poor agrarian country on the periphery of Europe. 120 years later, Sweden was one of the wealthiest nations in the world. A number of important changes and reforms led Sweden into the early stages of industrialization.

Between 1850 and 1970 Sweden had the highest economic growth rate in the world, next to Japan, and became one of the wealthiest nations in the world in terms of GDP per capita. Which factors influenced this process?

Early entrepreneurship

An important factor in Sweden’s successful economic development has been the abundance in natural resources, such as iron ore and forests. In the early 19th century the Swedish business system was more or less based on commodities from these resources, in addition to the old metal and foundry village environments, that existed in the country. This has resulted in a long tradition of refinement and export of metals like iron and copper. In parts of Sweden where metals were not available there has been a long tradition of handicraft based on textile and wood.

This became the foundation of early entrepreneurship, but until the mid-1850s, most of the economic activities were restricted by prohibitions and regulations. These regulations, gathered in a system called the guild system, contained clear rules of who, where and how different work could be carried out. One important step towards free entrepreneurship in Sweden was the liberal reform of 1846 that scrapped the entire guild system.

Agricultural revolution

Another important condition for early entrepreneurship and economic growth was the agricultural revolution in late 18th century. Traditionally, Swedish farmers have always had a strong economic and political position in the Swedish society.

The agricultural revolution introduced large scale and technically advanced methods of cultivating the land. These rationalizations meant that productivity rose in the sector and that the labor force made redundant could move to work in the early industries.

In that sense, the agricultural and industrial sectors together created a positive environment for economic growth.
The changes also implied increasing income for the land owners, which in turn led to higher demand for consumption and new machinery in the form of industrial products. In that sense, the agricultural and industrial sectors together created a positive environment for economic growth.

**Industrialization begins**

The biggest leaps of the Swedish industrial development occurred in conjunction with two separate industrial revolutions. The first industrial revolution, which began about 1850, had its roots in the old agrarian sector. At that time, Sweden had 3.5 million inhabitants and approximately 80 percent were engaged in the agricultural sector. Only 10 percent of the population lived in the cities. Therefore, industries were established primarily on the countryside for labor purposes.

The manufacturing sector, where steam was the main source of power, produced goods for export such as steel and iron and timber products. At that time Britain and a few other countries were already well under way in the industrial development process.

Although Sweden was, industrially speaking, something of a slow starter, the country entered the scene at a favorable moment. The economic development in Europe raised international demand and paved the way for Swedish products.

**Free trade and technological development**

The free trade movement that spread through Europe during the second half of the 19th century was crucial for the success of Swedish international trade. This enabled Sweden to ship products and goods such as iron ore, copper and timber products to Britain and to the rest of the European continent.

The second industrial revolution started around 1890 and meant a giant leap for the Swedish economic development. The electric and combustion engines replaced the steam engine as power source in the industrial production process. The industrialization became more focused to the cities.

The industrial production for the domestic market, such as clothes and shoe manufacturers, grew larger due to the overall income increase. This was also the era when new and more knowledge-based industries, such as engineering and the pulp industry, became the most important export industry.

**Large corporation structures**

In the second industrial revolution a new type of enterprise emerged, the joint stock company. In the late 19th century the joint stock system had become the dominating form of ownership in Swedish industry, and has been seen as one of the crucial factor for the formation of large private corporations.

Large, vertically integrated company groups began to form and many of the Swedish multinational engineering companies, such as LM Ericsson, ASEA/ABB, SKF, Alfa Laval, Aga and Dyno Nobel, were established. These companies were built around a number of revolutionary Swedish inventions and innovations.

**A changing economy**

The developing industry was aided by of one of Sweden’s major natural resources: hydroelectric power. The large quantity of rivers and waterfalls in the north of the country made electricity relatively cheap. This, in turn, lowered costs and further raised the demand for Swedish products on the international market.

Several additional factors created breeding grounds for Sweden’s rapid economic growth and eased the first steps toward the industrialization. They include
- large scale investments financed by foreign capital in Swedish infrastructure, mainly railroads
- rationalizations of agricultural methods
- rapid population growth
- city enlargement and technological improvements, such as telegraph expansion
- the spread of daily press
- the public school reform in 1842.

Around 1900 more than half of the population worked within the agricultural sector. Sweden was poor but it was a nation which swiftly adapted during the age of industrialization. Even if Sweden was a slow starter compared to other European countries, once the industrialization process set off, the economy developed at a rapid pace.

Sweden had all the ingredients that supported stable and long term economic growth. In the early 1900s the characteristically Swedish industrial mixture of engineering, mine, steel and pulp industry that we still see today was starting to take form.

From War to the Swedish Model

Sweden did not participate in either the First or the Second World War. Therefore, Sweden was in a good position to partake in the rebuilding of a war-torn Europe. The first half of the 20th century was however lined with political problems, high inflation, unemployment and economic recovering. But this was also the era when a new trademark for the Swedish economy was introduced, the Swedish model.

Sweden could take advantage of the increase in foreign demand caused by the First World War. After the war the economy grew fast but it was not based on new and better production methods. Instead it depended on pure speculation. The shortage of different necessary goods such as fuel and shortage of labour made the inflation rise dramatically.

A recovering economy

The year of 1932 was also a breaking point for in Swedish economic and political history. The new political ministry wanted the state to take a greater social responsibility. Fighting and controlling unemployment became the first priority. From now on the economy and its business cycle swings, would be controlled by the government. The first step towards “the Swedish model” and Keynesianism had been taken.

The rebuilding of war-torn Europe favored Swedish industry, since it had an intact labor force and undamaged production facilities.

The Second World War was followed by an economic boom. Sweden, having managed once again to stay out of the war, had a better starting position than most of its competitors. The rebuilding of war-torn Europe favored Swedish industry, since it had an intact labor force and undamaged production facilities.

A combination of all the above mentioned measures contributed to, at the end of the decade, that Sweden even saw some growth of the national economy in a time of world-wide economic stagnation. During the great wars and the inter-war period Sweden took a substantial step from being a poor country to becoming one of the world’s wealthiest.

The Swedish Model

The central feature of the so-called “Swedish model” was the historical compromise between a social democratic ruled state and a widespread privately owned industrial sector. The compromise was some sort of middle way between unlimited private capitalism and socialist planned economy.
The ownership of most of the large companies, except for the state owned monopolies, stayed private and expanded at the same time as the public sector expanded.

The "Swedish model "can be summarized as

- a large, privately owned industrial sector
- a large public sector financed by taxes
- a large trade union movement
- the state playing an active role in labour market policies
- ambitions to achieve an even distribution of income and wealth

The terms “The Middle Way” and “The Swedish model” became well known trademarks for the Swedish economy the next three decades.

From the beginning, the “Swedish model” seemed to be working very well. From the early 50s to the late 60s, the entire world economy grew by 4 to 5 percent each year, and Sweden was one of the most successful Western nations of this era. Between 1960 and 1965 the economy reached its peak with a yearly GPD growth average of 5.3 percent and productivity growth average of 5.6 percent per year.

Structural change in the labour market

Although the native textile industry suffered heavily from increased international competition, the engineering and rubber industries expanded as a result of an increased demand for motor vehicles. The unemployment went down just after the war and was extraordinary low, around 2 percent, during the 50s and 60s.

The Swedish labour market saw a major change in the 1960s. While the number of people employed in the service sector increased, there was a drop in the number of industrial workers, especially in the textile and leather sectors. The social welfare systems expanded substantially and the number of people employed in the public sector increased considerably during the 60s and 70s.

The flip side to the government’s ambitious social welfare and redistribution policy was the very heavy tax burden. Even today Sweden has the highest taxes in the world, with a tax burden equivalent to 50 percent of GDP.

Resource 2: An Economic History of Romania

Evolution

From earliest times, the Romanian lands were renowned for their fertile soil and good harvests. As the Roman colony of Dacia, the region supplied grain and other foods to the empire for nearly two centuries. During the subsequent two millennia, a succession of foreign powers dominated the area, exploiting the rich soil and other resources and holding most of the native population in abject poverty. It was not until the middle of the nineteenth century that a unified, independent Romania finally emerged, opening the way for development of an integrated national economy.

But even after Romania had gained independence, foreign interests continued to dominate the economy. Large tracts of the best grain-growing areas were controlled by absentee landlords, who exported the grain and took the profits out of the country. Outsiders controlled most of the few industries, and non-Romanian ethnic groups--particularly Germans, Hungarians, and Jews--dominated domestic trade and finance. The centuries of outside control of the economy engendered
in the Romanian people an extreme xenophobia and longing for self-sufficiency—sentiments that would be exploited repeatedly by the nation’s leaders throughout the twentieth century.

On the eve of World War II, agriculture and forestry produced more than half of the national income. Reflecting the country’s limited economic development, about 90 percent of export income in 1939 was derived from raw materials and semi-finished goods, namely grain, timber, animal products, and petroleum. The most advanced industry at that time, oil extraction and refining, was controlled by Nazi Germany for the duration of the war and suffered severe bombing damage.

For several years following the war, the devastated economy was burdened with reparation payments to the Soviet Union, which already by 1946 had expropriated more than one-third of the country’s industrial and financial enterprises. By mid-1948 the Soviets had collected reparations in excess of US$1.7 billion. They continued to demand such payments until 1954, severely retarding economic recovery.

Left: Emblem of the Romanian Communist party

After the installation of a Soviet-styled communist regime, Romania’s economic evolution would faithfully follow the Stalinist pattern. Adopting a centrally planned economy under the firm control of the PCR, the country pursued the extensive economic development strategy adopted by the other communist regimes of Eastern Europe but with an unparalleled obsession with economic independence. The development program assigned top priority to the industrial sector, imposed a policy of forced saving and consumer sacrifice to achieve a high capital accumulation rate, and necessitated a major movement of labour from the countryside into industrial jobs in newly created urban centres. The first step on this path was nationalization of industrial, financial, and transportation assets. Initiated in June 1948, that process was nearly completed by 1950. The socialization of agriculture proceeded at a much slower pace, but by 1962 it was about 90 percent completed.

Beginning in 1951, Romania put into practice the Soviet system of central planning based on five-year development cycles. Such a system enabled the leadership to target sectors for rapid development and mobilize the necessary manpower and material resources. The leadership was intent on building a heavy industrial base and therefore gave highest priority to the machinery, metallurgical, petroleum refining, electric power, and chemical industries.

Shortly after Nicolae Ceausescu came to power in 1965, PCR leaders re-evaluated the development strategy and concluded that Romania would be unable to sustain the rapid rate of economic growth it had achieved since the early 1950s unless its industry could be streamlined and modernized. They argued that the time had come to assume an intensive development strategy, for which the term "multilateral development" was coined. This process required access to the latest technology and know-how, for which Ceausescu turned to the West.

Economic growth during the first twenty-seven years of communist rule was impressive. Industrial output increased an average 12.9 percent per year between 1950 and 1977, owing to an exceptionally high level of capital accumulation and investment, which grew an average 13 percent annually during this period. But with the concentration of resources in heavy (the so-called Group A) industries, other sectors suffered, particularly agriculture, services, and the consumer-goods (Group B) industries.

After 1976 the economy took a sharp downturn. A severe earthquake struck the country the following year, causing heavy damage to industrial and transportation facilities. Ceausescu’s vision of multilateral development had made little headway, as the bureaucracy was unable to steer the economy onto a course of intensive development, which would have necessitated major improvements in efficiency.
and labour productivity. The population was demanding production of more consumer goods, and an incipient labour shortage was hindering economic growth. By 1981 the country was in a financial crisis, unable to pay Western institutions even the interest on the debt of more than US$10 billion accumulated during the preceding decade. Obsessed with repaying this debt as soon as possible, Ceausescu imposed an austerity program to curtail imports drastically, while exporting as much as possible to earn hard currencies. Rationing of basic foodstuffs, gasoline, electricity, and other consumer products was in effect throughout the 1980s, bringing the Romanian people the lowest standard of living in Europe with the possible exception of Albania. In April 1989, Ceausescu announced that the foreign debt had been retired, and he promised a rapid improvement in living conditions. Most foreign observers, however, doubted that he could fulfil this pledge.

**Left: Nicolae and Elena Ceausescu shortly before their execution on 25th December 1989**

THE STALINIST ECONOMIC MODEL imposed on Romania after World War II survived the following four decades largely unaffected by the liberalizing reforms that gradually occurred in other parts of Soviet-dominated Eastern Europe. Indeed, in its degree of centralization, the pervasiveness of communist control, and the general secretary's personal dominance of economic policy making and implementation, the Romanian model arguably eclipsed even the Soviet archetype.

Through a highly centralized and interlocking party and state bureaucracy that reached from Bucharest to every farm and factory, the Romanian Communist Party (Partidul Comunist Român—PCR) set economic goals, allocated resources, procured and distributed industrial and agricultural output, controlled prices and wages, and monopolized banking and foreign trade. Ideological goals and the preservation of power and privilege for the party elite had superseded all other considerations in economic decision making—even including the maintenance of a minimum standard of living for the general population.

The 1980s were a period of extreme deprivation for most Romanians. Determined to retire as quickly as possible the foreign debt accrued during the previous decade and thereby reassert his country's political and economic autonomy, General Secretary and President Nicolae Ceausescu demanded enormous sacrifice on the part of ordinary citizens. His effort to build large foreign-trade surpluses required exporting basic commodities in short supply at home. Food rationing was re-imposed in 1981 for the first time since the early 1950s, while the government continued exporting large amounts of food to earn foreign exchange. Consumers also faced chronic shortages of gasoline, electricity, and heat. Durables such as household appliances and automobiles were exorbitantly expensive, and their use was discouraged by the authorities.

**Left: The 1,100 room palace built by Ceausescu in Bucharest. Ceausescu set about demolishing most of Bucharest’s historic districts including 19 Orthodox Christian churches, 6 synagogues and Jewish temples, 3 Protestant churches (plus eight relocated churches), and 30,000 homes in two neighbourhoods alone. In total, one-fifth of central Bucharest was razed for the project.**

In early 1989, Ceausescu proclaimed that Romania had finally rid itself of the onerous foreign debt and could resume the pursuit of its long-term economic goal—the status of a multilaterally developed socialist state by the year 2000. His vision of making Romania a "medium-developed" country by 1990 clearly had not come to fruition, as the economy had suffered numerous reversals since 1980. Western economists asserted that during much of the decade, industrial and agricultural output may actually have declined. This
decline could not be confirmed by official statistics, which had become increasingly untrustworthy and clearly omitted many categories of information.

The economic stagnation of the 1980s followed three decades of impressive industrial growth, when Romania had maintained one of the highest rates of capital accumulation and investment in the world. Industrial output by the end of the 1970s was more than 100 times greater than in 1945. The most notable growth had occurred in basic heavy industry, particularly in the chemical, energy, machine-building, and metallurgical sectors. Romania had become one of the world's leading producers and exporters of steel, refined petroleum products, machine tools, locomotives and rolling stock, oil-field equipment, offshore-drilling rigs, aircraft, and other sophisticated manufactures. Light industry's share of total output, however, had declined from more than 60 percent before World War II to less than 25 percent by the 1980s. The PCR industrialization program had been able to draw on a rich natural endowment of basic raw materials, including the most extensive oil and gas reserves in Eastern Europe, coal, metallic ores and other minerals, and timber. Natural inland waterways and warm-water seaports facilitated domestic and foreign commerce. And numerous streams and rivers flowing from the highlands provided opportunities for irrigation and electric power generation. These natural advantages notwithstanding, the economy of the 1980s suffered a severe raw materials and energy shortage as a large share of the most accessible reserves neared depletion. Furthermore, years of careless resource exploitation had caused severe environmental degradation, with particular harm to the water supply, soil, and forests.

Equally as critical to Romania's post-war development as its natural resources were its large reserves of underemployed rural labour that could be mobilized and transformed into an urban proletariat. But already by the end of the 1970s, it had become clear that this resource also was being exhausted. Romania faced an incipient labour shortage of the sort that had already stricken its more industrialized neighbours. This shortage was brought on by a declining birth-rate, the aging of the population, the emigration of skilled workers, and the squandering of labour resources through poor planning and management. All sectors of the economy suffered from low morale and productivity and a growing dissatisfaction with working conditions, wages, benefits, and the general standard of living. This dissatisfaction had even begun to surface in unprecedented strikes, demonstrations, and other acts of defiance.

Left: Fighting in the streets following the overthrow of the Ceausescu regime.

The ambitious industrialization program had deprived agriculture of investment capital and manpower for most of the first four decades of communist rule. But even as late as 1982, 28.6 percent of the working population was still engaged in farming. Application of more modern farming practices and an ambitious irrigation and land reclamation program had steadily raised production. Grain output more than quadrupled between 1950 and 1980. Nevertheless, output consistently fell short of target and was generally inadequate for domestic and export requirements.

After decades of neglect, in the late 1970s agriculture had finally begun to receive investments at levels commensurate with its importance to the national economy. But by the early 1980s, the general economic crisis prevented importing the inputs needed to make the sector more productive. This development, combined with the counterproductive imposition of compulsory delivery quotas on private farmers and more centralized administration of the entire sector, resulted in agricultural stagnation through much of the 1980s.
2.5 A number of factors contributed to the failure of Romania to achieve positive economic growth in the late 1990s. Economic modernization in both the rural and urban sectors has been minimal. Privatization of state-owned enterprises has not been pursued vigorously across all sectors. In some instances where restructuring of public enterprises has proceeded, such as in the mining sector, labor’s strong outcry has severely threatened government authorities. This in turn makes the latter even more reluctant to pursue needed reforms in other key parts of the economy.

2.6 The energy sector is one of these. Generation and distribution infrastructure are in dire need of modernization, and staffing and management practices need overhaul. Relative to high costs of inefficient supply, consumer energy prices have long been subsidized, leading international organizations to push for substantial domestic price increases to cover costs as a short-term measure to reduce the sector’s drain on the public budget. At the same time, such price increases are meant to induce medium to longer-term investments in modernization. However, the impact of such short-term price increases on both consumer budgets and manufacturing sector competitiveness is likely to be severe.

2.7 Corruption, weak institutions, ineffective legal and judicial systems, instability, and lack of transparency with respect to business regulation have hampered growth of the private sector, whether financed by domestic or foreign capital. A recent report by the University of Maryland’s Center for Institutional Reform and the Informal Sector (IRIS) links the fact of reduced profitability of small and medium enterprises in recent years to Romania’s regulatory system which “unnecessarily creates a drag on economic growth.” Environmental regulation is weak and enforcement has been all but nonexistent. Several ecological disasters in recent years have already attracted international concern and several others loom on the horizon, putting human health and investment potential in jeopardy.

2.8 The agricultural sector’s poor performance is due to a combination of natural and structural factors. Low access to inputs such as fertilizers and machinery services and to market outlets for sales of agricultural products are the main factors that contribute to the low level of agricultural productivity. Drought in 2000 exacerbated sluggish supply responses to privatization of the state farming sector, which was completed by 1997. Such reforms resulted in fragmentation of land ownership to farm sizes below the threshold for economic viability (average of less than 2 hectares of arable land per farm household), decapitalization of the former state farms, disintegration of irrigation system management, and insolvency of the agricultural credit system. Chirică and Teiuc note, "The farm-household sector has yet to recover from the dramatic structural effects of the land reform." As a result, 4.2 million inhabitants out of 10 million in the rural sector are poor and practice subsistence agriculture. Rural markets are weak, modern input use is limited, and non-agricultural rural sector economic activity is minimal.

2.9 During 1996-2000, Romania’s center-right coalition government was marked by political paralysis. Popular dissatisfaction with the lack of strong political leadership culminated in the 1999 sacking of the President of the Prime Minister, who was replaced by the Governor of the National Bank. However, such political reorganization was insufficient for restoring public confidence. At the end of 2000, Romanians restored the Social Democrats to power in a single-party minority government, the same party that had ruled from 1990 to 1996.

2.10 Notwithstanding more recent positive economic signals, the experience of the last twelve years has not augured well for social trends. Factory, farm, and mine closures all over the country have left large pockets of unemployment. During the Ceausescu regime, labor relocation (both forced and voluntary) into booming industry towns was common. Today, there are few new jobs being created, and to the extent that workers relocate, it is back to rural-based families to eke out subsistence from agriculture. Average unemployment rose from 6.0 percent in 1997 to 8.6 percent by the end of 2001 (Table 3), and is higher among males and those under the age of 25. Of those without jobs, 51.5 percent are considered “long-term unemployed.” Of those employed, an increasing number are shifting into agricultural sector employment (42.8 percent of those employed), away from industry and construction.

Resource 4: Brochure on the EU’s Regional Development for Romania
Cohesion Policy 2007-13

Strategic objectives

As established in the National Strategic Reference Framework for Romania, the EU funding will be invested in reducing the economic and social development disparities between Romania and the other EU Member States, by generating 15-20% additional GDP growth by 2015.

Five thematic priorities have been established to achieve this objective:

- Development of basic infrastructure in line with European standards – improving the basic infrastructure (roads, rail, water) in Romania is a prerequisite for launching economic growth and improving social cohesion.
- Increasing the long-term competitiveness of the Romanian economy – Romanian enterprises need to move beyond reliance on low labour costs and take a major step into the 21st century economy. The resources of the Structural Funds are available for developing better access to funds, commercial exploitation of research results and full participation in the knowledge-based economy.
- Development and more efficient use of Romania’s human capital – while unemployment is relatively low in Romania, so is the labour force participation rate, and there is substantial evidence of skills shortages and mismatches. Improvements in education, vocational training, lifelong learning, and active labour market policy will be combined to equip employers and employees so that they can take full part in the economic transformation that has already started and will be accelerated as a result of the Structural Funds.

The investment

For the 2007-13 period, Romania has been allocated approximately €19.2 billion under the Convergence objective and €455 million under the European Territorial Cooperation objective. Romania's contribution (including private sources) to complement the EU investments will amount to at least €5.5 billion, bringing the total investments in structural and cohesion policy to approximately €25.2 billion over the next seven years.

Regions to receive investment

All regions in Romania are eligible under the Convergence objective.
Building an effective administrative capacity – whether to successfully implement the Structural Funds or to achieve the wider goals of Romania's modernisation, sound and effective administration is essential. The National Strategy therefore includes a specific operational programme focused on this area, and has set aside resources in each of the operational programmes for improving effective delivery.

Promoting balanced territorial development (territorial priority) – fast-growing economies will, in the absence of any intervention, distribute growth unevenly, leading to increased divergence within the country, congestion costs and other inefficiencies. The purpose of the territorial priority is to counter these centrifugal effects and to ensure that all regions and territories in Romania reap the benefits of European Union membership.

The expected impact of the new Cohesion Policy

A number of key indicators and targets have been identified to illustrate the impact of the National Strategy and the Community contribution. Isolating the precise impact of the Structural Funds is difficult in a situation such as this where the country and economy are already in rapid transition, however macroeconomic and other impact studies have produced relevant indicators. These indicators are listed below and will be monitored and verified over the lifetime of the interventions and also after all the money has been spent:

- GDP – Increase by 15-20% more than would otherwise have been the case.
- Gross Capital Formation – growth of 28% more than the baseline scenario.
- GDP per employee – increase of 5.5% annually.
- Employment in the trade sector – increase of 23%.
- Jobs created and maintained – at least 150,000-200,000.

In addition, specific indicators have been identified for each of the thematic priorities, including the following:

- Basic infrastructure – 1,400 km of new or upgraded roads; increase from 5% to 70% the population linked to water services; 40-50% reduction in primary energy intensity compared with 2001.
- Competitiveness of economy – R&D expenditure to rise from 0.41% of GDP to 2.0% broadband penetration to increase from 3.5% to 40% of the population.
- Human capital – employment rate to increase from 57.4% to 64% of the population (15-64); activity rate to rise from 62.4% to 68.3%; proportion of the age group with upper secondary education to rise from 70.5% to 80%.
- Administrative capacity – more trust in public administration, increasing to 33% (central) and 60% (local) of the public.
An investment for growth and jobs

Romania has adopted a strategy based firmly on the Lisbon priorities of sustainable growth and jobs. However, the weaknesses in basic infrastructure are so great that only 55% of expenditure will be earmarked for Lisbon-related expenditure.

Operational programmes

The priorities of the National Strategic Reference Framework will be implemented through seven operational programmes (OPs):

- Three OPs will receive funding from the European Regional Development Fund (ERDF): the Regional OP, the Increase in Economic Competitiveness OP and the Technical Assistance OP.
- Two OPs will be funded by the European Social Fund (ESF) and will focus on human resources development and the improvement of administrative capacity, which is an important prerequisite for successful implementation of the Structural Funds.
- Two infrastructure-oriented programmes, the Environment OP and the Transport OP, will be funded by both the ERDF and the Cohesion Fund (CF).

The ERDF will also finance initiatives under the European Territorial Cooperation objective consisting of three strands for cross-border, transnational and interregional cooperation. Under this objective, Romania will be taking part in cross-border cooperation programmes with Hungary and Bulgaria, the transnational cooperation programme for the Black Sea and two enlargement and neighbourhood programmes.

Contact point in Romania

Romanian authority with overall responsibility for Cohesion policy 2007-13:

Ministry of Economy and Finance - Authority for the Coordination of Structural Instruments
44 Mircea Voda Blvd.
Sector 3, Bucharest
Romania
Tel. +40 21 302 52 00
Fax +40 21 302 52 64
> www.mfinante.ro/engl

The full text of the NSRF is available at:
> http://fonduriue.mfinante.ro/wps/portal