Enlargement of the European Union and the Regional Development Policy during 1973-2013: Main Issues and Outcomes

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Abstract. *The preoccupation for economic development and growth has been a central idea for all the economic schools of thinking and this can be noticed in the various growth models stated. In the context of the enlargement of the European Union, the issue of boosting economic growth and reducing disparities between member states has become a key issue to be resolved in order to ensure the proper development and functioning of the community. Since 1973, the Commissioner for Regional Policy, George Thomson, has highlighted the need for assistance to the poorer regions of the European Union. At the theoretical level, the idea of Structural Funds is based on the premise that market forces cannot correct economic imbalances due to reduced mobility of production factors. Mobility is restricted by the linguistic and cultural barriers between countries and regions. Since 1973, The Regional Development Policies and the Structural and Cohesion Funds have been steadily developing. In the last two budgetary allocations, the Policy for Regional Development had the second-largest financial allocation, after the Common Agricultural Policy. This research paper aims to take a look at the results that the Structural and Cohesion Funds had in the countries which joined the European Union in the period 1973-2013. The paper is structured as a comparative analysis of the waves of enlargement of the EU during the mentioned period. In the EU enlargement waves of 1973, 1986, 1995 there were disparities between the new members and the community average, and most of these differences were mitigated over time with the Structural and Cohesion Funds. The EU enlargements from 2004 and 2007 were unprecedented, due to the large gap between the new members and the community average. This "bold" decision of the European Commission, to accept new members with such a low GDP per capita shows that at an institutional level, the European Union trusts the functionality and effectiveness of its Regional Development Policy. But statistical data shows that this "trust" has been overestimated.*

Keywords: *Regional Development Policy; EU Enlargement; Economic growth; Economic Disparities.*

Introduction

Economic growth and development were key aspects since the foundation of the economic sciences. They were studied by almost all the economic schools of thought and there are many attempts to produce models that would explain and predict the course of a nation's economy.

Since 1957, when the European Union (EU) was founded, the demand for a coherent model that would explain the interaction between a developed country and a less developed country was even greater. For the EU to function properly the differences in economic development among its members need to be diminished.

In 1973, the year of the first EU enlargement, the English commissar for Regional Development Policy George Thomson, pointed out, for the first time, the necessity to assist the less developed regions of the EU. (Becker, Egger și Ehrlich 2018) Ever since the Policies for Regional Development and the Structural and Cohesion Funds have been undergoing constant development and streamlining process.

Martin Reiner admits that the economic literature does not reach a uniform conclusion, regarding the impact generated by the absorption of EU funds, but from his point of view the Structural Funds have a direct positive impact on long-term economic growth. The positive impact of EU funds, however, is conditioned by a stable macroeconomic environment, local institutions, and structures that support economic growth. Of these, the most important factors being: a low level of inflation, responsible budgetary policies, a taxation system oriented towards supporting companies, efficient transport, and communications infrastructure and well trained human capital. All of these things, Martin Reiner explains, contribute to the development of local economic agents and to attracting foreign direct investments, all of which translate into long-term economic growth. (Reiner, 2003)

Another aspect noted by Martin Reiner in the aforementioned research is the fact that at the level of the Regional Development Policy, elements of spatial concentration should be included, the simplification of the procedures should continue and a more serious coordination with the national and regional policies should be pursued, all this would, in the author's opinion, lead to a greater impact of EU funds. (Reiner, 2003)

Similar to Martin Reiner's view, authors Frank Barry, John Bradley, Aoife Hannan, conclude that structural funds have a long-term impact, but this impact is not generated by financial aid to the business environment, but by investments in infrastructure development and human capital. All of these having a direct effect on increasing productivity and profitability in the business environment. (Barry, Bradley, & Hannan, 2001)

The research carried out by Sascha Becker, Peter Egger and Maximilian von Ehrlich demonstrates, with the help of an econometric model that used macroeconomic data, that the structural and cohesion funds have short-term effects on unemployment and population incomes, but this study suggests that the effects on long term are conditioned by the quality of the regional development strategy. (Becker, Egger, & Ehrlich, 2018)

In the research “The Impact of the EU Structural Fund Support and Problems of its Absorption” the authors pointed out that, companies tend to have a slightly irrational behavior when it comes to non-repayable financial aid, sometimes implementing overvalued, oversized and not just timely projects. (Jureviciene & Pileckaitė, 2013)

In the paper "A Model-based Assessment of the Macroeconomic Impact of EU Structural Funds on the New Member States", Janos Varga and Jan in't Veld, following the application of the QUEST III model (a macroeconomic model), conclude that there are large uncertainties regarding the effect of structural and cohesion funds on productivity and further microeconomic analyses are needed to clarify this aspect. (Varga & Veld, 2009)

In the last two financial allocations, the Regional Development Policy had the second-largest budgetary allocation, after the Common Agricultural Policy. This granting of resources is justified by the fact that in order for the EU single market to function effectively, the economic disparities between the participating member states need to be at a minimal level. Therefore, the problem of Regional Development represents a major concern for the European Commission.

Due to the fact that there are several researchers that dispute the effectiveness of the Regional Development Policy and the EU Structural Funds, this paper aims to look at other possible causes that can explain the poor results registered for some countries (especially those that adhered to the EU in 2004 and 2007). The main hypothesis of this paper is that EU Structural Funds are an effective instrument in stimulating economic growth and reducing disparities between member states and the poor results that we see in some countries that joined the EU in 2004 and 2007 are caused by other factors.

The extension of the European Union and the Regional Development Policy

In theory, the need for Structural Funds arises from the fact that the single EU market cannot autocorrect its imbalances due to the low mobility of the production factors. The reduced mobility refers to linguistic and cultural barriers among different regions from different countries (Dumčiuvienė & Adomynienė., 2014).

In the EU enlargement waves from 1973, 1986 and 1995, there were differences in economic development among the countries that adhered to the community and the existing members at that time, and those disparities were diminished in time with the help of the Structural and Cohesion Funds.

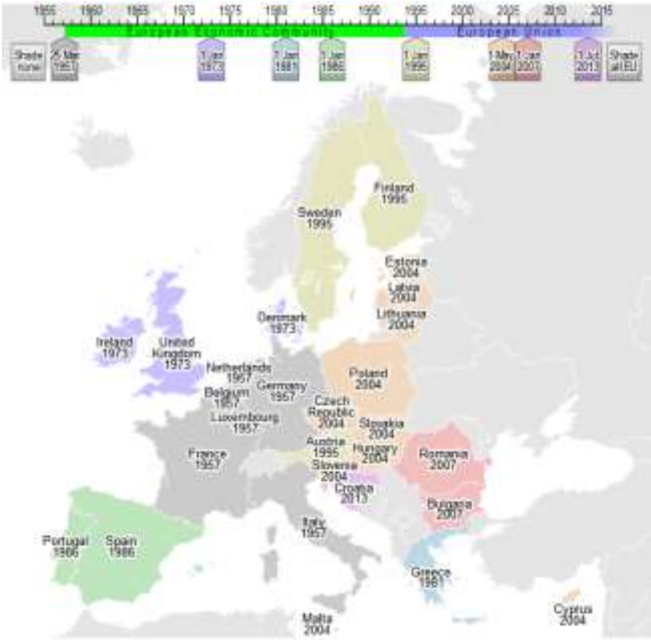

Figure 1. *Waves of Enlargement of the European Union*
Source: www.wikipedia.org (accessed 13.05.2019)

The EU enlargements from 2004 and 2007 had a certain particularity because of the extent of the disparities between the new members and the community average. This "bold" decision of the European Commission to accept countries with such a low GDP per capita proves that at an institutional level the European Union has great faith in the effectiveness of its Regional Development Policy.

In order to properly assess the impact that the EU Regional Development Policy has, we need to look at the results achieved by all the countries that adhered to the UE and benefited from Structural and Cohesion Funds.

Looking back, the first wave of enlargement of the EU was in 1973, when three new countries joined the community: Denmark, Ireland, and the United Kingdom. At that time only one of the three new members registered a GDP per capita lower than the community average.

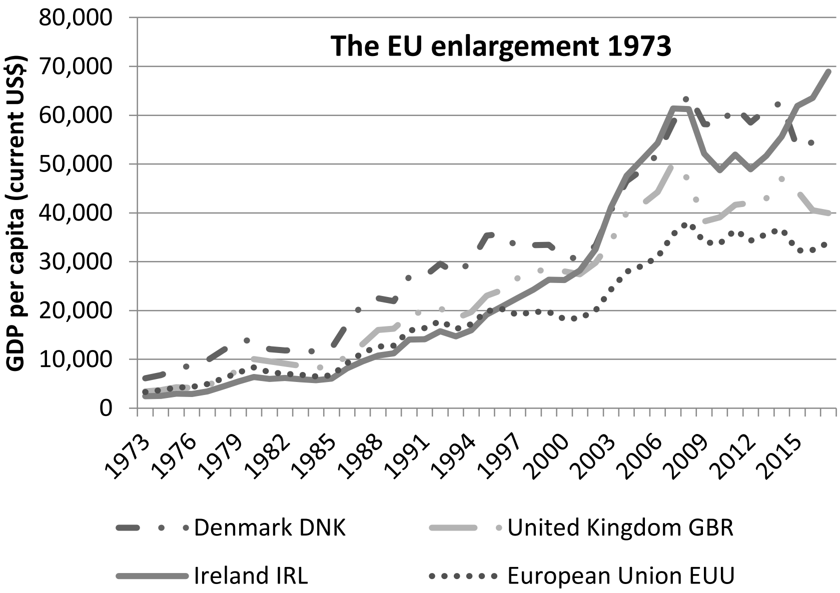

Figure 2. *GPD per capita of the countries that joined the EU in 1973*
Source: www.worldbank.org (accessed 13.05.2019)

After its accession to the EU, Ireland was the first country that managed to catch up and reduce the economic disparities that existed between it and the EU average. In 1996, for the first time since it joined the EU, Ireland registered a GDP per capita above the EU average (Figure 2). It took 26 years for Ireland's economy to catch up, and the difference between its GDP per capita and EU average in 1973 was not particularly significant, Ireland GPD per capita at that time represented 74,30% of the EU average.

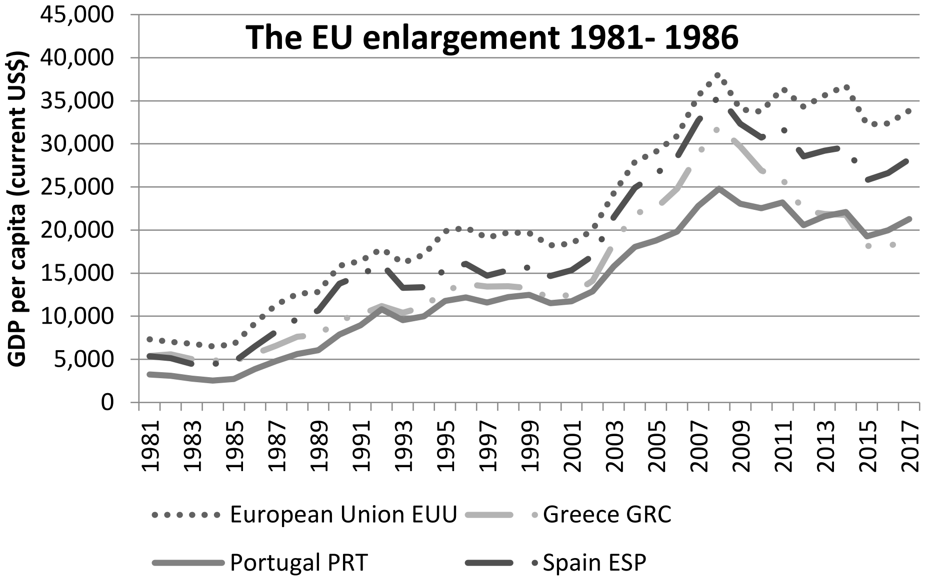

Figure 3. *GPD per capita of the countries that joined the EU in 1981 and 1986*
Source: www.worldbank.org (accessed 13.05.2019)

In 1981 the European Union accepted Greece as a member and five years later Spain and Portugal joined as well. Compared to the EU enlargement wave of 1973 when one state was under the EU average and the other two were above it, in the enlargement wave of 1981 and 1986 all the countries that joined had a GPD per capita lower than the EU average. When it joined the EU, Greece's GDP per capita represented 73,44% of the UE average, Spain's GPD per capita was 70,73% and Portugal's GDP per capita was 42,06%.

Neither of the three managed to surpass the EU average. The closest they got was in 2009 when Spain's GDP per capita represented 95,13% of the EU average, Greece's GDP per capita was 87,42% and Portugal's GDP per capita was 67,86%, in the period that followed the differences between the three countries and the EU average grew (Figure 3). What happened after 2009 can be reasonably attributed to the economic crisis of 2008; we need to point out that Spain, Greece, and Portugal seem to be more affected by the outcomes of the economic crisis, compared to other countries of the EU. The community average does not tend to decrease as much as the individual countries' indicators.

Among the three, Spain, in the same manner, like Ireland, seems to register a positive response to EU Regional Development Policy, in 23 years managing to almost surpass the EU average (referring to GDP per capita). If the economic crisis of 2008 had occurred two or three years later, Spain would have clearly surpassed the EU average for GDP per capita.

Greece represents a totally different case: in spite of the fact that when it joined the EU the difference between its GPD per capita and the EU average was not significant (Spain registered a greater disparity), Greece's economy did not respond as well to the aid received through the EU Regional Development Policy.

If we look at the evolution of the three countries form a relative perspective, we would be surprised to find that the greatest relative growth compared to the year when it joined the EU, is registered by Portugal; in 2017 its GDP per capita represented 551,26%, compared to its percentages from 1986; Spain's GDP per capita for the same period reached 434,25% and Greece's GDP per capita in 2017, compared to 1981 was 351,01%.

From this data, we can clearly see that the "catching up" process is more intense in the countries that recorded a greater gap.

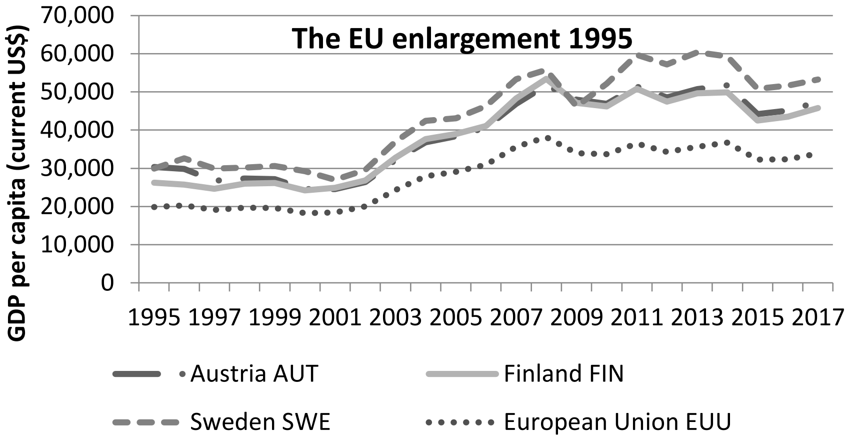

Figure 4. *GPD per capita of the countries that joined the EU in 1995*
Source: www.worldbank.org (accessed 13.05.2019)

In 1995 the EU accepts three new members: Austria, Finland, and Sweden. All of the countries that joined in the enlargement wave of 1995 registered a higher GDP per capita than the EU average (Figure 4). When they joined the EU Austria's GDP per capita represented 152,68% of the EU average, Finland's GDP per capita was 132,28% and Sweden's GDP per capita was 150,61%. Consequently, in the case of these three countries, we have no issues related to economic convergence.

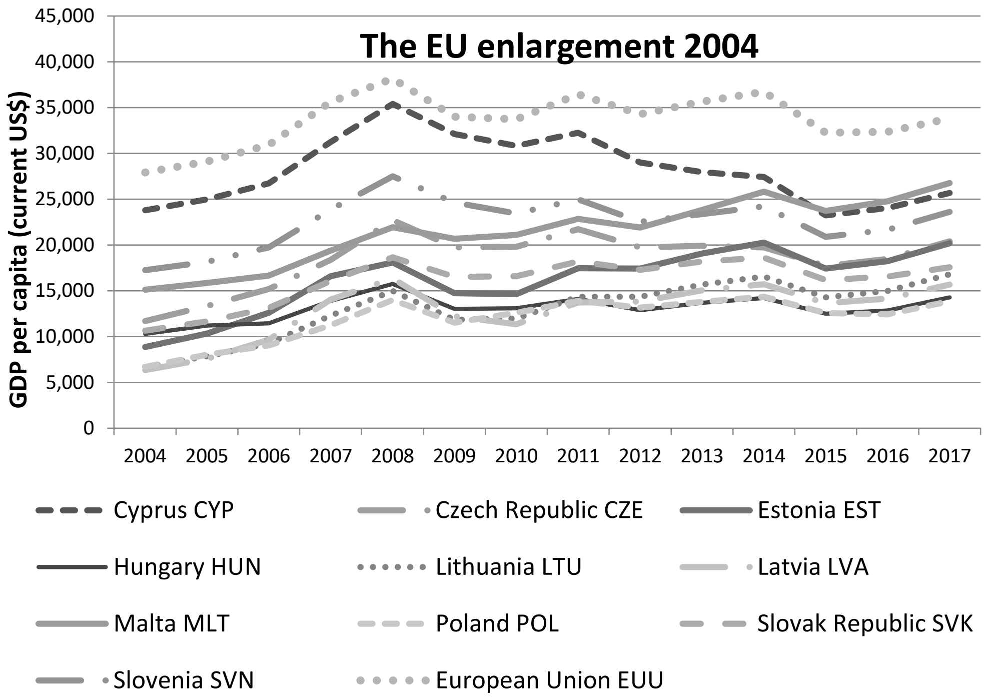

Figure 5. *GPD per capita of the countries that joined the EU in 2004*
Source: www.worldbank.org (accessed 13.05.2019)

In 2004, a unique event takes place: The European Union accepts ten new members. Whereas in the former waves of EU enlargement the differences between the new members and the community average were not substantial (with the exception of Portugal, the new members had a GDP per capita that represented 70-75% of the community average) in 2004 the EU accepted as members' countries with a GDP per capita that represented 20-40% of the community average (Table 1).

Table 1. The situation of the countries that joined the EU in 2004 – nominal growth

Country	GDP / capita compared to the EU average (2004)	GDP per capita growth rate 2017 - 2004
Cyprus	85,19%	107,84%
Czech Republic	41,84%	174,40%
Estonia	31,69%	228,24%
Hungary	36,87%	138,68%
Lithuanian	24,01%	250,63%
Latvia	22,74%	246,96%
Malta	54,10%	177,03%
Poland	23,92%	207,50%
Slovakia	38,15%	164,99%
Slovenia	61,80%	136,73%

Source: author's processing according to the data www.worldbank.org (accessed 13.05.2019)

The UE enlargement wave of 2004 represented a challenge for the Regional Development Policy. Since 2004 the countries that adhered to the EU have made some progress. As illustrated in Figure 5, some trends towards convergence can be observed, but the differences compared to the EU average still remain significant. As we saw in Portugal's case, the countries that registered a larger deviation from the mean tend to catch up quicker, obtaining growth rates greater than 200% (Table 1 – Lithuania, Latvia, and Poland)

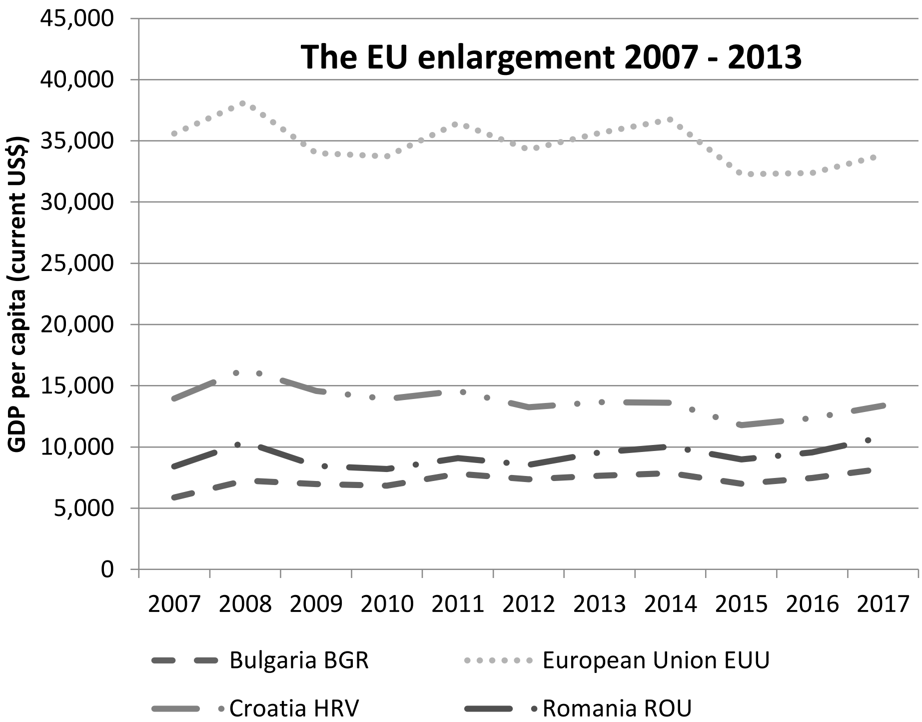

Figure 6. *GPD per capita of the countries that joined the EU in 2007 and 2013*
Source: www.worldbank.org (accessed 13.05.2019)

In 2007, the European Union accepted two new members, Romania and Bulgaria, and in 2013 Croatia joined as well. Similarly, to the enlargement wave from 2004, the differences between the new members and the community average were notable.

Bulgaria is the country with the lowest GDP per capita that was accepted in the European Union, in 2007 it's GDP per capita being 16,53% of the community average (Table 2).

***Table 2**. The situation of the countries that joined the EU in 2007 and 2013 nominal growth*

Country	GDP / capita compared to the EU average (2007/2013)	GDP per capita growth rate 2017 – 2007/ 2017 - 2013
Bulgaria	16,53%	139,79%
Romania	23,66%	128,42%
Croatia	38,34%	97,97%

Source: author's processing according to the data www.worldbank.org (accessed 13.05.2019)

Romania is the country with the third-lowest GDP per capita (after Bulgaria and Latvia) to be accepted in the EU, in 2007, Romania's GDP per capita being 23,66% of the EU average. Contrary to what we have seen in other cases, where countries with a large deviation from the average GDP per capita tended to grow faster and tried to catch up, Romania and Bulgaria recorded very small growth rates after they adhered to the EU, values of under 140% (Table 2).

In 2013, Croatia is the last country to adhere to the European Union, the economic situation of this country is comparable to those that adhered in 2004, its GDP per capita in 2013 was 38,34% of the EU average; it is a large discrepancy from the EU average, but it is practically double of what Bulgaria registered when it joined.

Conclusions

We can clearly see the EU enlargements form 2004, 2007 and 2013 represent a new type of challenge for the Regional Development Policy. It is quite difficult to compare the convergence process of the countries that adhered to the EU in 1973, 1981 and 1986 with the ones that adhered in the last three waves, because of their difference in deviation of the GDP per capita.

Looking at all the statistical data, we can reasonably state that EU's Regional Development Policy seemed to be quite efficient in the case of the enlargements from 1973, 1981 and 1986, but as we stated previously, the enlargements from 2004, 2007 and 2013 are completely different and as a result, the effectiveness of the Policy is debatable.

Another representative factor, when it comes to regional development and economic growth, is time; Ireland needed 26 years to surpass the EU average, Spain was very close after 23 years. The countries from the 2004 wave only had 15 years since the accession, and their initial deviation is enormous compared to Ireland's and Spain's (20-40% compared to 70-75%). It is true that the countries with a lower GDP per capita tend to grow faster than the ones with a higher GDP per capita (for instance Portugal, Lithuania, Latvia, Poland), but we can reasonably argue that countries that joined the EU in the last three waves need at least 40 years to reach the EU average.

We can argue that the hypothesis we stated is true, the EU Structural Funds are still an important instrument for reducing disparities between member states and the poor results that some researchers identified can be reasonably attributed to the great gap in economic development (GDP per capita) of the countries that joined the EU in 2004 and 2007, furthermore, the convergence process is a slow process that is linked to the extent of the disparity between the country and the community average.

This statistical analysis of the convergence process of the EU is very useful in understanding the differences among the Enlargement waves and the challenges that the Regional Development Policy faced, but further analysis is needed in order to identify the impact that the Structural and Cohesion Funds have in the new EU members. It is clear that the Regional Development Policy has to adapt to the specific needs of these new members.

The analysis presented in this paper has two main limitations: 1. the analysis takes into account only quantitative factors and clearly, there are some qualitative factors that have an influence on the efficiency of the absorption of EU Structural Funds; 2. The analysis does not take into account the influence of migration; one of the principles of the EU is "the freedom of movement", and in a lot of countries that adhered to the EU, the population registered a population decline due to emigration, this variation affects all the "per capita" indicator. The identified limitations will be the subject of future research.

Acknowledgment. *This work is supported by project POCU 125040, entitled "Development of the tertiary university education to support the economic growth - PROGRESSIO", co-financed by the European Social Fund under the Human Capital Operational Program 2014-2020*

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