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Competitive Areas of Integration: The Case of Romania in South-East Europe

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Abstract: The paper attempts to substantiate the conjecture of an optimum competitive area, tentatively referred to as a certain pattern of spatially-defined areas conducive to competitive development for industries or firms in such a way that benefits from competition are maximized. Following a documentary economic analysis, as well as a statistical investigation, both centered on the particular case of Romania, it could be expected to reconsider the region of South-East Europe (SEE) as such a homogeneous area with in-built potential for competitive advance in the larger European space of economic integration. The work presents a factual exposition of the regional sources of Romania's competitive advantages and shows that there are economic tendencies which point out a rather more stable and economically self-supporting space of competitive advantages than analyses of European integration would conventionally consider. It also adds to the evidence of competitive development by emphasizing distinctively homogeneous regions of trade and development and, in particular, the case of SEE.

JEL Classification: L100, R150

Keywords: competitive area, South-East Europe, economic integration, Romania

Introduction

The regional economic evolutions in South-East Europe (SEE) have captured an increased research interest in the last decade. The timing of this concentration of analytical efforts may be easily juxtaposed on the revolutionary movements of the 1990s which created a new political and economic landscape of the region. The 'similarity issue' has been taken for granted as an investigative question in the light of common historical legacy and geographical conditions. It is for that reason that most of the dedicated studies target the issue of similarity to enlist conditions of growth in

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order to achieve a systematic understanding of the various paths the SEE countries have taken over the transition period.

Of interest here however is the quest for arguments to credibly put the question the other way around, namely, representations of that particular regional circumstance under which countries should make most of their potential for competitive advance in the larger European space of economic integration. This paper thus sees 'similarity' from a different angle, namely as a resource for growth rather than a developmental circumstance. The approach is grounded on the body of the economics of agglomeration which so aptly deepens the tenets of economic integration. The work attempts to substantiate the conjecture of an optimum competitive area, tentatively referred to as a certain pattern of spatially-defined areas conducive to competitive development for industries or firms in such a way that benefits from competition are maximized.

To that end, this research makes use of documentary evidence articulated around the Romania's regional position, as well as of statistical investigation of conditions of similarity. The results confirm much of the existing information on regional groupings, but also reveal noteworthy details on the European economic landscape. The argument concludes that the regional integrative processes make up for a credible representation of SEE as a homogeneous area of competitive development.

Theoretical Background and Methodology

The theory of regional integration lies amongst its core predictions a comprehensive set of economic conditions, mainly based on the static and dynamic effects of the formation of a preferential trade area, which would be indicative of the net effects the integrating group is about to produce in the international trade. There is however a missing element in this classical view: the conditions in which various regions or countries within the integrating area absorb those effects remain indeterminate. The diversity of conditions speaks of a visible pattern of different regional capabilities to cope with and react to the integration opportunities.

This paper aims at providing prima facie evidence toward that kind of better representation of regional economic integration. The quest for an economically self-supporting space of competitive advantages has been suggested by arguments which ascribe regional effects of integration to several interrelated factors like specialization, learning and innovation, scale economies and capital formation 'that do not respond in a simple or predictable way to the incentives generated from rapid opening up' (UNCTAD 2004a). The study of geographical clustering has given some support to the view that dynamic economic development is closely linked to the agglomeration and attraction of economic activity. One may plausibly assume that a disaggregated examination of the integration effects would reveal a rugged regional landscape of competitive growth dependent on such diverse factors as levels of development, cultural stereotypes, political attitudes or infrastructure connections.

The emphasis of the scholarship focused on the regional integration evolutions in Europe generally follows two directions of research: one general, panoramic perspective complementing a more detailed, analytical view of the economic functioning. The former approach is preoccupied to underline specific paths of economic and social developments, whereas the latter brings to the fore particularities of economic structures as they are revealed mainly by reciprocal commercial exchanges.

The insights provided by the first line of research advocate conditions of economic growth and prospects of economic convergence which discriminate among various national experiences. First, the European regions attract much of the attention because of the heterogeneous conditions for economic growth. What most distinguish the SEE region, for example, consists of its fragile foundations for development. Authors like Trăistaru and von Hagen (2003) enlist a wide range of factors such as significant current account deficits, lack of financial discipline, underdevelopment of the public services systems, low levels of infrastructure quality, and high dependence on the EU markets for exports which all undermine the proven record of commitment to macroeconomic stability. Second, on the assumption that the European integration process is a significant determinant of convergence, then the researchers look at how different countries and regions fare as to their capability to bridge the developmental gaps. The evidence gathered presents inconclusive results as regards the beneficial effects of integration on convergence. What seems to remain uncontroversial (see also Trăistaru 2004) is the revealed correlation between convergence and increasing trade intensity, although one may not say for sure what the right causation is. According to Kaitila (2004), who examined the EU15 countries during 1960-2001 and the post-1990 developments of seven accession countries[1], the convergence is neither automatic, nor continuous; structural reforms were also important in supporting positive economic developments. A similar conclusion is reached by Sachs et al. (2000a), for whom a country cluster typology[2] based on the so-called ‘initial conditions’ of transition help understand the regional processes of integration and systemic transformation.

A different challenge is however how the actual level of development disparities harms future growth. Against the framework of the future enlargement of the European and Monetary Union (EMU), Trăistaru (2004) provides a closer look into the structural and cyclical convergence between 10 EMU members and 8 CEE countries[3]. Using data for 1990-2003, this analysis reveals that both similarity of economic structures and bilateral trade intensity are positively and significantly associated with business cycles correlations. A different approach applied by Sachs et al. (2000b), by means of indicators of competitiveness and economic performance, converges to credit country clustering with meaningful explanatory power as to the strengths and weaknesses of each country relative to its competition.

A second line of research deepens these structural patterns of growth. The main focus of research resides this time in the scope and the determinants of trade between the EU and CEE. Positive evidence points to a strong correspondence between similarities of economic conditions and favourable conditions for competitive advance. Aturupane et al. (1997) assimilate the degree of convergence with the index of horizontal intra-industry trade (i.e. exchange of differentiated goods of comparable quality) and find that it can be explained up to 85% by country-specific factors instead of industry-specific factors. For Gabrish and Segnana (2003), trade liberalisation widens the productivity gap when countries' endowments, as well as their household income distribution differ significantly and fosters productivity convergence in the opposite case.

Following the dominant thread of this research, the twist of the argument this material proposes is not apparent, even if substantiated by disparate evidence. A conventional account (e.g. Sachs et al. 2000b) would perceive the various levels of economic performance between regional groupings as a resource in the integration process; viz. the future level of performance is determined by inter-regional differences. What the literature overview nevertheless suggests is that theoretical arguments and empirical data convincingly support a separate treatment of countries and regions according to their different capabilities to take advantage of the integrating area; the level of economic performance should be accordingly viewed significantly determined by various economic measures of similarity within regional groupings. This paper thus adds to the evidence of competitive development of the European countries by emphasizing distinctively homogeneous regions of trade and development and in particular the case of SEE.

The work investigates two sources of empirical evidence for competitive regions of integration. First, comprehensive documentary observations collected from business magazines, press releases, internet presence and political declarations over the period from 2000 to 2005, which by and large coincides with the emergence of SEE as a visible regional presence, allow for an economic representation of what a competitive region of integration supposedly is. The observed thrust of deploying strategic plans in this region plausibly seems to support the arguments for a differentiated approach to regional integration. Second, a polythetic, agglomerative cluster analysis (CA) is used as a classification method to assign countries to clusters in a way that minimizes within-cluster country differences and maximizes across-cluster country differences. With the help of a statistical software (SPSS), data are processed from 33 European countries, which are defined from a geographical point of view into SEE (9 countries), Western Europe (WE) (16 countries) and

Central and Eastern Europe (CEE) (8 countries). The research groups observations that are similar across five coordinates, each of them further detailed by several specific indicators as follows: Human Development (5 indices[4]); Economic Performance (6 indices[5]); Competitiveness (6 indices[6]); Institutions (5 indices[7]); and Research and Development (5 indices[8]).[9] What all these approaches suggest makes up the conclusive argument that similar patterns of growth and development credibly give contour to a competitive area of integration where benefits from competition are maximized.

The Case for Competitive Areas of Integration: Romania in South East Europe

The SEE area is used interchangeably with the Balkans region and is meant to define the SEE-8 region covered by the national territories of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic (FYR) of Macedonia, Moldova, Romania, and Serbia and Montenegro. This represents the area definition of the Stability Pact for South Eastern Europe (SPSEE) in 1999, one of the earliest multilateral approaches to this region's issues. More accurate descriptions would include in SEE countries like Cyprus, Slovenia, Turkey, and Greece as well, while others usually leave aside countries like Croatia, Cyprus, Moldova, and Slovenia.

The following analysis attempts to seek any pattern of enduring development strategy for competitiveness and growth in the area of SEE. This part begins with the case of Romania, which is highly relevant due to the recognized presence of this country as a major regional player. Romania is the biggest economy in the SEE-8 in terms of population and GDP value, and the largest recipient of foreign direct investments (Cojanu 2005). The argument subsequently brings under consideration by means of a statistical investigation the other thirty-two European countries.

Economic Representation of a Competitive Area of Integration

The tendency to give SEE a separate economic representation has become first visible at the level of major institutional partners: the European Bank for Reconstruction and Development (EBRD), one of the major regional investors, organizes a department for South-East Europe and Caucasus; the European Union extends its external assistance to several regions, which include the Western Balkans; the National Bank of Austria claims on its website to have 'a strategic focus on South-Eastern Europe' through such initiatives as economic research or regional forums. Companies too restructure their organization to be able to react positively to this new strategic change. The scope of competitive strategies stretches various markets, and the degree of operational sophistication ranges from low- to high-tech, from capital or labour to knowledge intensive, from traditional to modern. Gradually, the corporate organizational charts have been modified to include new Balkan units. That is the case for such major companies like PricewaterhouseCoopers (PwC), Metro Cash & Carry, Nortel Networks, General Motors, The Coca-Cola Company, Microsoft, Fujitsu Siemens Computers, Unilever, Siemens Business Services (SBS).

It is these economic tendencies which point out a rather more stable and economically self-supporting space of competitive advantages than analyses of European integration would conventionally consider. Tables 1 and 2 in Appendix help lay emphasis on a set of five observations, which in descending order of importance appears as follows:

(1) Strategy is more easily conceived.

Romanian companies find it a handier approach to formulate and implement business strategies because successes are easier to achieve and business opportunities to perceive. Economic arguments about levels of income and demand conditions probably count for the most part. The external competitive environment is hardly distinctive from conditions at home; consumers afford buying roughly same sorts of goods, while industries compete on undistinguishable competitive advantages. In this level playing field, competences are better put at work as they try to achieve distinction out of almost every minor opportunity. In contrast, an advanced country would inhibit any chance of innovative products or technologies as there are expectedly none within easy reach.

Some examples illustrate the case. In the ball-bearings industry, a Turkish producer acquired Rulmenti Barlad, a traditional Romanian player, only to make this Romanian company invest back in its home country some time later in a new productive facility. The car model Dacia-Logan produced by the French manufacturer Renault at its Romanian plant in Pitesti, has been awarded the industry enviable title of ‘Car of the Year 2005’ in Serbia & Montenegro. A noteworthy addition is that the contest implied competition with such reputed brands as Toyota Prius, Ford Focus or Opel Astra, which represents by all means a hard-to-imagine outcome on any advanced market.

(2) The value chain is more valuably exploited.

The economic activity of Romania-located firms in the Balkans region hardly bears any resemblance with lamenting comments such as lack of indigenous brands, of distributional channels, or of sophisticated market segments that usually conclude any analysis of Romanian exports to the EU market. Both support and primary activities are fully represented in ways which exploit Romania’s innovative resources and competitive advantages of higher level.

Whether it is about multinationals’ affiliates (e.g. Unilever, Procter & Gamble, Coca-Cola, Nortel) or Romanian companies (e.g. Rompetrol, Terapia, Mobexpert), any part and parcel of company or industry value chains is thoroughly taken advantage of: human resources, product development, research, acquisitions, planning, logistics, transport, production, marketing, and after-sale services. What is more commendable, these conditions frame particularly distinctive abilities to be used on a regional basis, such as managerial skills, network coordination or product development.

(3) Romania plays the role of a test market.

At some stage in their local presence, companies began capitalizing on economies of experience, streamline their organizational structure and focus its Romanian expertise on the Balkans strategies. That is the case of The Coca Cola Hellenic Bottling Company, headquartered in Athens, which used to structure its operations in two separate regions: Black Sea Region with Romania, Bulgaria, and Moldova and Adriatic and Balkans Regions with Serbia & Montenegro, Croatia, Bosnia & Herzegovina. Favourable geographical opening, impressive sales, and reliable management are just several factors that converged to make Romanian market an obvious choice in terms of successful market strategies for the whole region. Similar motivations backed decisions to pick-up Romanian management teams to coordinate regional activities for companies like Microsoft, Metro Cash & Carry, Wrigley, Dell, or Unilever South Central Europe (USCE).

Besides managerial expertise, Romanian location becomes attractive because the opportunities to build production and logistics facilities to reach out distant or risky places like Russia, Ukraine, Middle East or Caucasus. As a rule, there have been observed a time lag between 3 to 5 years after the Romanian presence was established until the investments here began working for entry in foreign markets.

(4) Spill-over effects of political arrangements.

Regional involvement on behalf of leading international organisations has built confidence in devising integrative business plans for the Balkans region and effectively contributed to supporting major infrastructure or economic projects or even consolidating existing companies through portfolio participation. The remarkable fact is however that this core of entrepreneurial dynamics set in motion self-standing processes of business creation in the region. Because of their still relatively small economic size, these processes may be obscured by the big picture. A look at local business expansion becomes imperative. As a point in case, statistics show two Balkan countries with significant investment interests in Romania, Turkey and Greece, only on the 9th and 11th positions, respectively, whereas the image changes considerably when one takes into account, for instance, estimates of the commercial section of the Greek Embassy in Romania that would place this country on the 3rd position instead if due consideration is given to investments from off-shore origins.

Behind political decisions, successful business models resembling mature markets come to life. So is the case of the project for a regional exchange market for energy, where the national operator in Bucharest, OPCOM, aspires to become a regional player. A parallel competing initiative from Slovenia comes just to emphasize the business interest focused on this area.

(5) Speculative returns and attractive growth rates of an emergent market.

Romania like most of the SEE countries is characterized by any emergent market's characteristics such as imperfect capital markets, asymmetrical information, inflationary threats and dual economy that make it an attractive market for foreign investors searching for high capital returns. Even if from a financial standpoint these evolutions cause at times havoc and hamper market predictability, they also have the positive effect of accumulating financial expertise and even financial assets to be put at use. A new industry of venture capital knows explosive growth. The next development stage has naturally taken form of expansionary plans in the region. Romanian location sets itself at the centre stage for an impressive list of funds which coordinate their operations in SEE.

Statistical Analysis of Regional Clusters

Successive rounds of clustering at the level of both each category and the five categories altogether have been used to highlight regional links among thirty-three European countries. The interpretation is thus based on complementary observations relative to the strength of similarities in instances that weigh most on a country's competitive development. The use of a large series of statistical indicators help the analysis better discriminate between the random effect of regional clustering by geographical vicinity (as the area definitions suggest) and the hypothesized effect of competitive developments underpinned by homogeneous areas of integration.

The analysis reveals a set of two behavioral patterns, each of them laying emphasis on a different facet of regional developments in the European space as follows:

(1) There is a core of SEE, as well WE countries that form more homogeneous groupings in whatever iteration. In contrast, the CEE group features weaker connections and correspondingly a hardly identifiable distinctiveness. Most visibly, this conclusion is inferred from the joint analysis across all categories and is illustrated in Figure 1 in Appendix. What there appears consists of relatively small

groupings, up to a maximum of five countries, whose compositions overlap consistently with the area definition their members belong to with the notable exception of the CEE group. The SEE area is represented by Romania, Turkey and Croatia in one group and Bosnia & Herzegovina and Macedonia in a second one, which later fusion in one bigger area and remains so at significant distance from other groupings. Similarly, the WE gets together in a uniformly competitive space four small groups, namely the EU Scandinavian countries joined by Germany and the other clusters which are formed of only two countries (Austria and France, UK and Netherlands, Belgium and Luxembourg). As for the other countries and with the exception of Albania and Serbia which were statistically marginalized because of empty data, no clear pattern emerges. Bulgaria and Greece join the CEE and the WE member countries, respectively, while Spain, Portugal, and Italy show strong affinities with the CEE group.

It is however of significant relevance that these observations remain unaltered for iterations performed separately in respect with each of the five economic dimensions. If there are exceptions these rather strengthen the case of homogeneous competitive areas: Croatia leaves the group only to join other SEE countries in just two instances ('Economic performance' and 'Institutions'); Spain, Portugal, and Italy, joined occasionally by Cyprus and Malta move back and forth between the CEE and WE countries, while Bulgaria and Greece shows a similar instability but relative to the CEE and SEE areas. In stark contrast with this idiosyncratic behavior, the SEE and WE regions prove remarkably distinct by means of forceful intra-regional similarities.

(2) A second major conclusion emerges when considering the number of clusters: the narrower the economic significance of the category dimensions along which the groupings cluster, the smaller is the area that forms at the first iteration. If one-country clusters are left aside, one gets 3 clusters for both 'Human development' and 'Research & development', 4 for 'Competitiveness', 5 for 'Economic performance', 7 for 'Institutions', and 8 for joint analysis.

The results confirm what appears to be common sense, namely the fact that countries tend to cluster into large groups the more general is their denominator, say political legacy, historical circumstances or shared ideology. At the same time, taking into account the indicators' meaningfulness for the economic environment in which industries evolve, as suggested by the ascending order of the above sequence, it thus appear reasonable to think that a better understanding of regional evolutions strongly relates to a similarly better representation of the developmental similarities.

Concluding Remarks

In conventional analyses, economists used to consider the world economy or smaller economic spaces of regional integration the reference framework against which to measure the costs and benefits of resource allocation. This image however contrasts with the economic view of large positive effects of intense competition, which offers opportunities to compete both on complementary and competitive bases, each producing distinct long-run implications. The more intensively the latter is used as a basis for competition, the greatest the chances are that the economy restructures quicker and sharpens its competitive advantages. If one accepts that protectionism is not a viable economic solution, then the pursuit of competition on equal footing is the most reasonable way to preserve and take advantage of free competition.

The economic integration of Romanian in SEE suggests an appropriate theme to discuss this theoretical inference. Integration in various European spaces is definitely a process in the making, but one which outlines predictable evolutions. As far as Romania is concerned, it is in an extremely advantageous position to use its resources for coordination and establishment of business networks in SEE. Reinforcing mechanisms and self-sustainable processes make this particular business environment actually sharpen and upgrade its industries' competitive advantages in stark contrast with evolutions on any other geographical market.

The geographical scope of self-enforcing competitive capabilities however remains indeterminate. There are reasons to believe that no strict spatial definitions of competitive economic areas exist. This sort of definitions is deemed to remain rather vague, even if a core group of countries remains remarkably stable over repeated iterations. This material suggests instead that an economic definition is not only realistically substantiated by several characteristics, but also pragmatically required because of its tangible policy implications for development.

NOTES

[1] The Czech Republic, Hungary, Poland, Slovakia, Estonia, Latvia and Lithuania

[2] The proposed taxonomy is: the EU-border states (1) (Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia), the Balkans (2) (Bulgaria, Macedonia, Romania), Baltic States (3) (Estonia, Latvia, Lithuania), Albania (4) (Albania), Western FSU (5) (Belarus, Moldova, Russia, Ukraine), Caucuses (6) (Armenia, Azerbaijan, Georgia), Central Asia (7) (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan)

[3] Central and Eastern Europe (CEE) Countries: the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Slovenia, Slovakia

[4] Education, Human development index, Urban population, Health expenses per capita, and GINI index (source: UNDP 2004).

[5] GDP per capita (PPP value), High tech exports as percentage of total exports of manufactured goods in 2001, 2002, and 2003, Exports per capita, Inward Foreign Direct Investments (FDI) Stock as percentage of GDP (sources: UNCTAD 2004b; World Bank 2004).

[6] Local competition, Cost of corruption, Institutional Investor Country Credit Rating, Average interest rate differential, Marketing expertise, and Growth Competitiveness Index (GCI) (source: WEF 2004).

[7] Index of public institutions, Governmental efficiency, Regulatory quality, Control of corruption, and State of law (sources: WEF 2004 and Kaufmann et al. 2003).

[8] Number of patents per capita, Corporate R&D, Corporate collaborations, Degree of innovations, Average for these data (source: WEF 2004).

[9] In the following cases, no data has been found: Serbia and Montenegro – no data for Human Development and Economic Performance; Albania – no data for Competitiveness; and R&D Bosnia and Herzegovina – no data for Economic Performance. Therefore, as commonly used in the cluster analysis, the lacking data is replaced by a null variable, forcing that country to be part of a single-country cluster, separated from the rest of the countries, only to be reunited with them in the final iteration.

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Appendix

Table 1: Romania as regional platform for foreign companies in South East Europe

Operations of regional importance from Romanian locations	Company
Technology & Production	General Motors Electromotive, USA, Procter & Gamble Romania, Honeywell, USA, Computer Associates, USA, Lockheed Martin, USA, IBM, USA, Nortel Networks, Canada, Kombassan Holding, Turkey, Energy Consult, Switzerland
Logistics, Marketing & Sales	Procter & Gamble Romania, General Motors Electromotive, USA Unilever South Central Europe (USCE), GlaxoSmithKline, UK, Avon Cosmetics, The Coca-Cola Company, USA, The Coca-Cola Hellenic Bottling Company, Greece, Elite International, Israel, Balkan, Greece, Kastamonu Entegre, Turkey, Porta KMI, Poland, Renault, France, BOCM Pauls, UK, SIP d.d. Sempeter, Slovenia, Saint-Gobain, France, Tenaris, Switzerland, IBM, USA, Parisot Group, France, Nortel Networks, Canada, Maspex, Poland
Regional center (decision, distribution, human resources)	Unilever South Central Europe (USCE), GlaxoSmithKline, UK, Wonderware, USA, Wrigley, USA, Dell, USA, Visa International, USA, McDonald's, USA, Microsoft, USA, Atlas Telecom Network, USA, Viator & Vektor, Slovenia
Portfolio investment	Romanian Capital Advisors (RCA), Global Finance, Greece, Balkan Accession Management Company, USA, GED Capital Development, Spain, SigmaBleyzer, USA

Sources: Ziarul Financiar, various issues, 2000-2005; Capital, various issues, 2000-2005.

Table 2: South-East Europe as regional platform for Romanian companies

Company	Industry	Operations from SEE locations
Mobexpert	Furniture	Local sales
La Fantana	Water/cooler	Local sales & exports
Flamingo Computers	IT, retail	Local sales
Scala Business Solutions	Business systems	Local sales
WizRom Software	Software	Local sales
Vel Pitar	Milling and bakery	Local production
Rompetrol	Oil	Local distribution & storage
Petrom	Oil and gas	Local distribution, OMV Branding
Atlantic Tours	Tourism (incoming)	Online ticketing
Mondostar Sibiu	Clothing	Brand sales
Leonardo	Retail	Local distribution
Grupul Feroviar Roman	Rail transport	Service provider
Terapia Cluj	Pharmaceuticals	Local sales and marketing
Transelectrica (OPCOM)	Energy (Bid project, 2007-2008)	Commodity exchange

Sources: Ziarul Financiar, various issues, 2000-2005; Capital, various issues, 2000-2005.

Figure 1: Cluster analysis of European countries (combination of five categories of indicators)