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SOCIO-ECONOMIC CHALLENGES FOR REGIONS AND AGRICULTURE IN THE NEW MEMBER-STATES

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Abstract

The regional inequalities in the EU are an essential part of policy agenda and public discussions. The new Member-States remain in the group of "lagging regions" that includes low-income areas facing a number of challenges. Agriculture is a crucial sector in most of these regions, and it is seen as a major source of local employment and income. The survey aims to present the characteristics and the implication of regional disparities and outline recommendations for more balanced development. The study shows that diverge is growing at a national, regional and local level. Regions are experiencing low growth, high unemployment rate, social exclusion and poverty. However, it can be concluded that many of the regions have unexplored potential. In order to address the disparities, then policymakers should focus on the regions` specific features. The regional programs should be directed to their unique characteristics and challenges. In this regard, the implementation of targeted support should be associated with coordination and cooperation between different stakeholders.

Key words**:** *inequality, poverty reduction, regional development*

INTRODUCTION

Regional disparities are an essential part of the policy agenda and object of discussion at the EU level. Although there are a number of instruments directed to balanced regional development, various reports show rising inequality among Member-states and a growing divergence at the local level [5, 14, 18, 21].

The new Member-states regions are considered "lagging regions" with low-income and market participation alongside incomplete structural transformation [14]. In addition, these inequalities in the regions impact the welfare of the households leading to poverty, social exclusion and emigration.

On the other hand, agriculture plays a vital role in the region of the new Member-states. Although there is a decreasing share of this sector in GDP due to economic progress [4, 27] the sector is an important part of the rural economy and source of income for rural areas population.

The survey aims to present the characteristics and implications of regional disparities and recommendations for more balanced regions development.

MATERIALS AND METHODS

In order to observe the socio-economic challenges at a national and regional level, the methodology proposed by Pilati and Hunter [21] is applied. While traditionally, GDP per capita is a widely used measure for assessing regional convergence and economic growth, indicators such as risk at poverty and social exclusion are also applied [7].

The disparities in the income distribution are analysed based on the S80/S20 ratio. The indicator is the most commonly used index in this context. This measure "as a ratio of total income received by the 20% of the highest income population to that received by the 20 % of the population with the lowest income"[18].

The survey focuses on social-economic development at the NUTS2 level and is based on Eurostat data from 2009-2020.

RESULTS AND DISCUSSIONS

Gross domestic product per inhabitant is a key indicator of economic development and growth [27]. Figure 1 presents GDP per capita in Bulgaria, Romania and Croatia. The regions with the highest and lowest indicator level in the countries are outlined. In the 2014-2020 programming period, almost one-third of the total EU budget was oriented towards Cohesion and convergence policy [8]. The EU goal is to overcome disparities in regional economic growth.

According to the EU definition, [21] Bulgaria and Romania are identified as countries with low-income regions because their GDP per capita in PPS is lower than 50% of the EU average. During the observed period in some Romanian regions, GDP per inhabitant is increased above 50% (Nord-Vest, Sud-Est and Sud-Muntenia). Some regions have a GDP per capita below 50% of the EU average; however, they have had economic growth higher than the EU average since 2009. Only one region in Bulgaria: Yugozapaden, has GDP per capita above 50% of the EU average (89%).

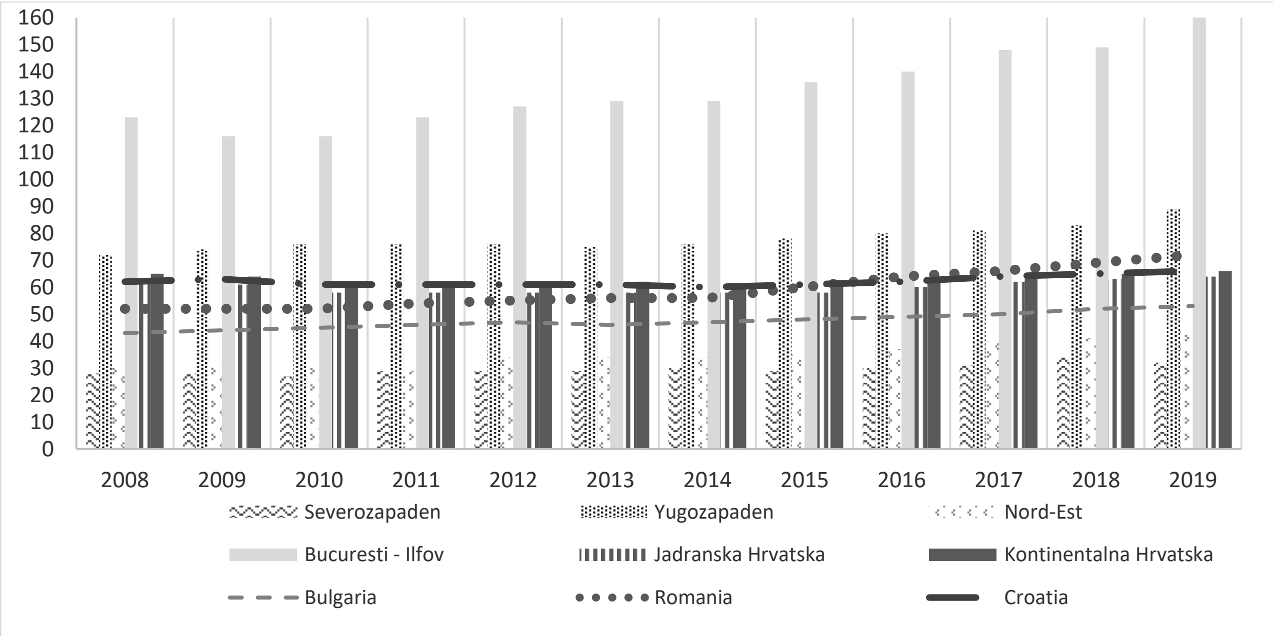

Fig. 1. GDP (PPS) per inhabitant in percentage of the EU-27 average
Source: [10, 20].

The indicator is approximately three times higher than the region with the lowest level of GDP in the country. In 2019, the other five Bulgarian regions are still among the poorest in the EU, with a GDP per inhabitant between 31% and 41% of the EU average. Although the income levels in Bulgarian regions are still low, they are more than double their 2000 levels [21].

Romanian regions have higher growth performance compared to Bulgaria. In 2019, only one region is still below the 50% of EU average – Nord-Est (44%). The region of Bucuresti is far above the national and EU average. It has a GDP approximately four times higher than the other regions. These trends outlined a large concentration of production and capital in the Bucharest region.

Croatia is the newest Member-state that accessed the EU in 2013. In the 2002-2008 period, Croatian GDP per capita increased by around 4%, reaching 63% of the EU-28 average [21]. These levels are similar to that in other Central and Eastern European countries. The 2008 financial crisis led to a six-year recession, slowing the convergence process. In 2015, the Croatian economy recovered slowly from the crisis. After 2015 the annual economic growth was above the EU average. The GPD per capita is above 50% of the EU average; however, there is no significant growth, and the convergence process is lagging behind.

In contrast to Bulgaria and Romania, Croatian regions are not considered as low-income, and there are no serious imbalances in their economic growth.

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Based on the analysis it can be concluded that Bulgaria and Romania could not take advantage of the proposed instrument despite the financial support under the EU funds. Significant issues have been identified in almost all regions in Bulgaria.
Resources and production capacity are concentrated mainly in Sofia and Bucharest districts. By contrast, the rest of the country lags behind and can hardly reach capital levels. In Croatia, the results are more balanced; however, the country is not making remarkable progress after the accession to the EU, and the convergence process is slow. In addition to the observed regional differences, intra-regional disparities are formed. Therefore volatile results are observed in some of the regions in Romania and Bulgaria.
Low-income regions in Romania and Bulgaria are growing closer to the EU average GDP. Their economic development is catching up, and they receive already serious financial support from the Cohesion Policy. However, some of the poorest regions are not developing fast, which results in wider national differences. Therefore, a spatially targeted policy is needed to ensure that the more developed areas do not concentrate investment and growth opportunities away from the other areas in the selected countries.
In addition to GDP per inhabitant, another indicator of social challenges in regional development is the income quintile share ratio (Table 1).

Table 1. Income quintile share ratio (S80/S20)

Countries/NUTS2 regions	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Bulgaria	6.5	6.1	6.6	6.8	7.1	7.7	8.2	7.7	8.1	8
Severozapaden	6.7	6.3	5.4	6	6.5	7.3	7.1	7.6	7.6	8.5
Severen tsentralen	6.5	5.3	4.6	5.4	4.8	5.1	6	6.8	6.5	5.9
Severoiztochen	6.4	6.1	5.8	6.4	7.3	8.2	7.5	6.2	6.7	6
Yugoiztochen	6.7	7.4	7.3	7.3	6.5	7.4	9.4	6.2	7.7	8.1
Yugozapaden	5.6	5.4	6.1	6.1	6.8	7.2	8.2	8.5	9.1	8.5
Yuzhen tsentralen	5.4	5.5	7	6.9	7	7.9	7.7	6.7	6.9	6.5
Croatia	5.6	5.4	5.3	5.1	5.2	5	5	5	4.8	
Jadranska Hrvatska			4.8	4.7	4.6	4.6	5.1	4.9	4.4	
Kontinentalna Hrvatska			5.6	5.3	5.4	5.2	5	5.1	5	
Romania	6.2	6.6	6.8	7.2	8.3	7.2	6.5	7.2	7.1	6.6
Nord-Vest	5.5	5.5	5.2	5.1	6	5.3	5.5	5.8	5.2	5.2
Centru	5.2	5.7	5.8	6.9	11	6.4	5.2	6.2	6.3	6
Nord-Est	7.2	7.7	9.1	9.8	10.2	8.7	8.4	9.2	9.5	8.9
Sud-Est	6.3	7.1	7.9	9.5	7.9	7.1	7	7.4	7.2	7.1
Sud - Muntenia	5.3	5.3	5.1	5.7	7.1	5.8	6	6.8	7.1	5.6
Bucuresti - Ilfov	4.5	4	5	4.4	4.4	6.6	4.1	5	4.1	4
Sud-Vest Oltenia	7.5	9	6.8	7.3	8.3	10.3	8.9	9.8	7.3	7.7
Vest	6	7.5	6.9	7.7	5.8	5.5	5	5	4.8	6.4
EU average	5.03	4.98	5	5.2	5.22	5.16	5.08	5.12	5.09	5.24

Source: [11].

Based on the data, several conclusions can be drawn. First, in the EU and Croatia, there is a lack of dynamics, while in Romania and Bulgaria, significant variations are registered. Bulgaria has recorded the highest level of the ratio. There is an increase in income inequality in the country. Despite the macroeconomic stability, negative convergence trends are observed. In Bulgaria, the increase in income is more distorted to the upper quintiles of the population than in the Romania, Croatia and EU average.

In Romania, the highest ratio levels are registered in the region with the lowest GDP per capita. The income equality is much lower than the EU average in the Bucuresti region.

The results show a decrease in income disparities and positive trends in Croatia.

Secondly, there are severe interregional differences. Inequality is also deepening at the regional level, with the most significant differences in Yugozapaden and Severozapaden regions. Therefore, despite the higher GDP per capita in the Yugozapaden region, the income is unevenly distributed and concentrated mainly in the capital city Sofia.

The analysis results clearly outline the significant challenges related to income inequality in Bulgaria and Romania, which could not be resolved after the countries acceded to the EU.

The high levels of income inequality in Bulgaria seriously increase the risk of social exclusion, preventing balanced and sustainable growth.

In this regard, another important indicator related to regional development is the risk of poverty and social exclusion [23]. It is based on the sustainable development goals set by the United Nations [25].

The data shows that Bulgaria and Romania are observed the highest indicator levels. In Croatia, the results are close to the EU average levels.

In Romania and Bulgaria, serious regional disparities are registered. In Romania, people who face poverty risk in Nord-Est and Sud-West regions are four times more than the Bucuresti region. In Bulgaria, the indicator level is two times higher in Severozapaden than Yugozapaden region. According to the latest Eurostat data [9], the gap between cities and rural areas is the highest in Romania and Bulgaria. (30% in Romania and 24% in Bulgaria). By contrast, in Croatia, the indicator in rural areas is 23.6 % and close to the EU average (23.2%). Unemployment, low income and education, exclusion from the labour market are critical drivers for the observed trends.

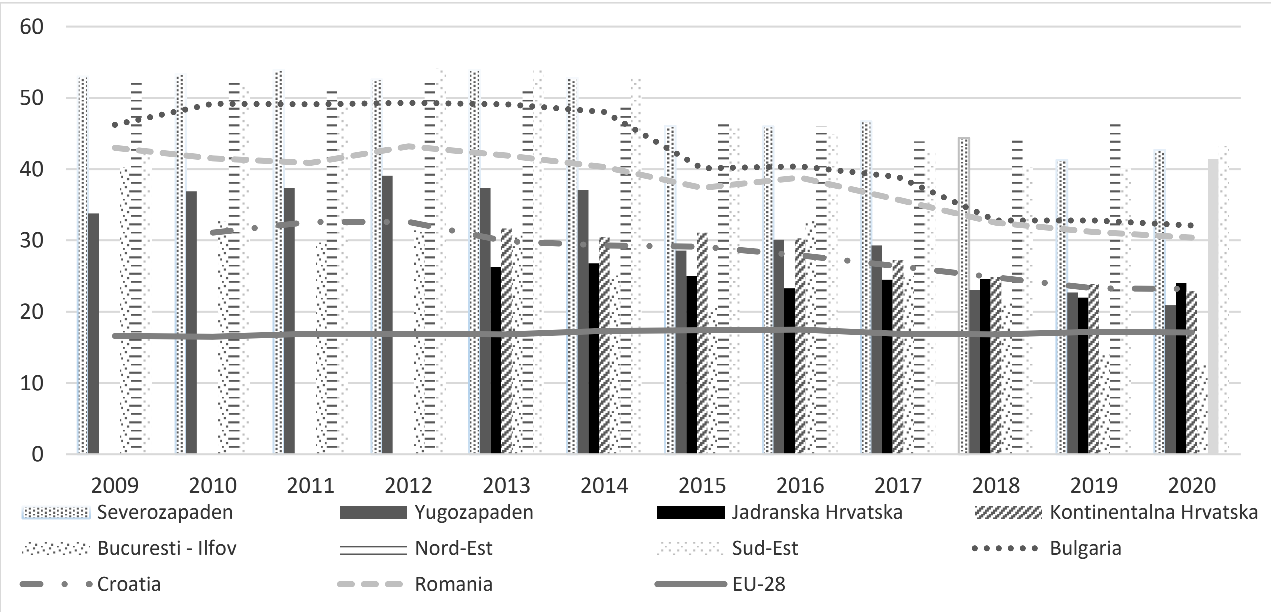

Fig. 2. Risk at poverty and social exclusion (% of the population)
Source: [12].

The results in Romania and Bulgaria emphasize the contrast between developing the capital city and the rural regions. The study results show that a significant part of the territory of Bulgaria and Romania could not boost their economic and production potential. In Croatia, the trends are positive, and the indicator is decreasing after the accession to the EU.

Disparities between regions and serious intra-regional disparities hold back the implementation of innovations and new technologies, the development of circular and bioeconomy models that could contribute to green and sustainable economic growth. In this context, it is necessary to consider the possibilities for overcoming serious imbalances in territorial development through the new approaches of regional development [1, 14, 15, 17, 21].

Agriculture remains a vital sector in the new Member-States economy.

The share of agriculture in the total gross value added shows the role of agriculture in the national economy (Figure 3).

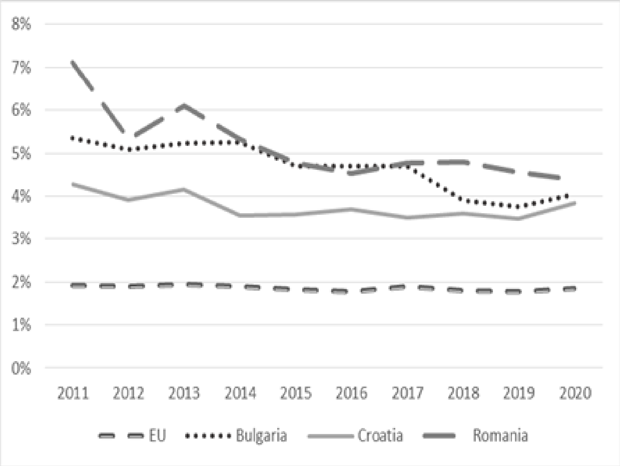

Fig. 3: Share of agriculture in Gross value added (%)
Source: Own calculation based on [13, 20].

Based on the data, it can be concluded that the share of agriculture in gross value added is declining in the selected countries. The highest decrease is observed in Romania. However, the sector's share remains higher than the EU average in these countries.

Although agriculture represents only around 4% of total GVA, the importance of them sector is higher than the results indicate. According to EU country factsheets [6], Romania and Croatia rural territory are 67.8% and 62.8%, respectively. In addition, the share of the rural population is over 60%.

In Bulgaria, the share is much lower (22.1%); however, the territory in the intermediate regions is more than 60%.It should be noted that agriculture is a vital sector in the Bulgarian regions with the lowest GDP per capita. According to the National Statistical Institute in 2012-2020, the agricultural sector has a higher share than countries average (Severozapaden- 12.3% and Severen Tzentralen - 9.8%)

According to EU country factsheets [6], the agricultural output is dominated by crop production in the selected countries. The share of the subsector is 70% in Romania, 67% in Bulgaria and 60% in Croatia. In Croatia, there is a more balanced agricultural structure. By contrast, cereals form 37% and 21% of agricultural output in Bulgaria and Romania.

In the selected countries, the farms under 5 hectares are 84% of total holding in Romania, 82.6% and 67% in Bulgaria and Croatia, respectively [6]. Although small farms dominate in rural regions, there are serious challenges related to the term "land grabbing" in Romania and Bulgaria. This process strongly impacts small farmers and agricultural workers [2, 24]. On the other hand, Croatian agriculture struggles with land ownership and outdated land registry books that affect the rural population's well-being [19].

After the accession to the EU, Croatian transformation led to an increase in GPD and a decrease of the population facing risk at poverty and social exclusion. On the other hand, the regional difference remains an issue and rise during the observed period. In Romania and Bulgaria, the monoculture agricultural structure with the domination of extensive production also leads to serious imbalances.

In scientific circles, different "paradigms" related to balanced regional and rural development are highlighted. Hodge and Midmore [17] outlined four models of rural development – a sectorial model, territorial approach and local or integrated model.

Despite the financial fund under the CAP and Cohesion policy, some studies pointed out that these policies do not prioritize the New Member States acceded after 2004 [3, 16, 22, 26].Therefore in the new programming period, changes in several areas are needed.

The local model with an orientation toward the specific features of the regions could be an option to expand regional potential. However, implementing such an approach requires capacity building at a regional and local level.

In Bulgaria and Romania, regional and even local imbalances are observed. In order to improve the regional performance of the lagging regions in the countries, adaptation toward the new policy and priorities at a local level is needed. The cooperation between different stakeholders would be essential for better implementing the new CAP. In addition, the Bulgarian and Romanian governments should support more the small and medium-sized producers in their application for different funds. Coordination and knowledge transfer is also vital in achieving more balanced regional development.

CONCLUSIONS

Based on the results, some conclusions and recommendations can be outlined:

(i)Key socio-economic indicators show serious differences between the new Member-States and EU average; between the different regions in Romania and Bulgaria, and more balanced development in Croatia.

(ii)Agriculture remains an important sector in the selected countries. However, land fragmentation and „land grabbing" remain a serious challenge in some regions.

(iii)There is unexplored potential in implementing various regional policies and instruments.

(iv)Boosting the potential of lagging regions should focus more on more well-target support to improve the business environment. The regional gaps related to skills and education should also be addressed

(v)Building greater coordination and improving administrative capacity is crucial for expanding the regional potential. In this regard, the implementation of regional and cohesion policies should be associated with better coordination between different stakeholders.

(vi)The regional imbalances could be overcome with financial support directed to small and medium-sized farms. The simplification of the procedures, a key priority in the new CAP, could help implement better policy measures.

(vii)Local models based on the specifics of the regional economy could boost regional development

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