



Competitiveness Enhancement and Smart Specialization Policies in the Romania West Region

Timisoara

September 10, 2012

Roadmap of the presentation

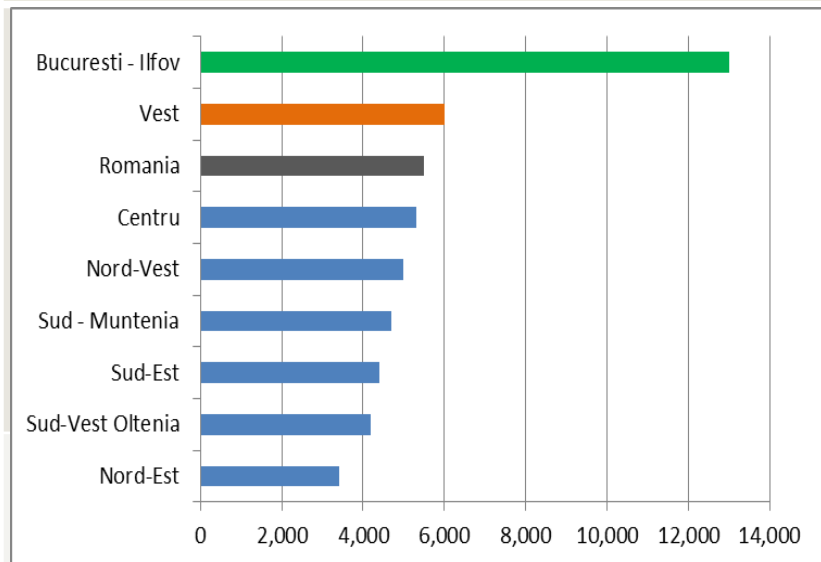
- 1. Economic context of the West Region**
- 2. The role of government to promote sustainable growth**
- 3. Objective**
- 4. Approach**
- 5. Conclusions**

1. Economic context of the West Region

West Region is second only to Bucharest in economic performance...

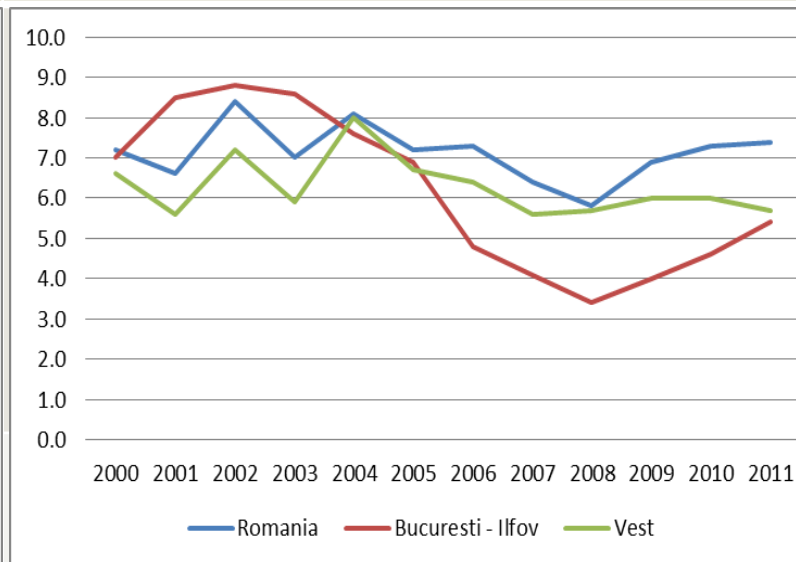
- The West Region enjoys a relatively high level of development in the country, second only to the Bucharest-Ilfov region in terms of GDP per inhabitant.
- Regional unemployment decreased steadily until the crisis but has been considerably higher than Bucharest since 2005, although the rates have converged recently.

GDP: Euro per inhabitant, 2009



Source: Eurostat

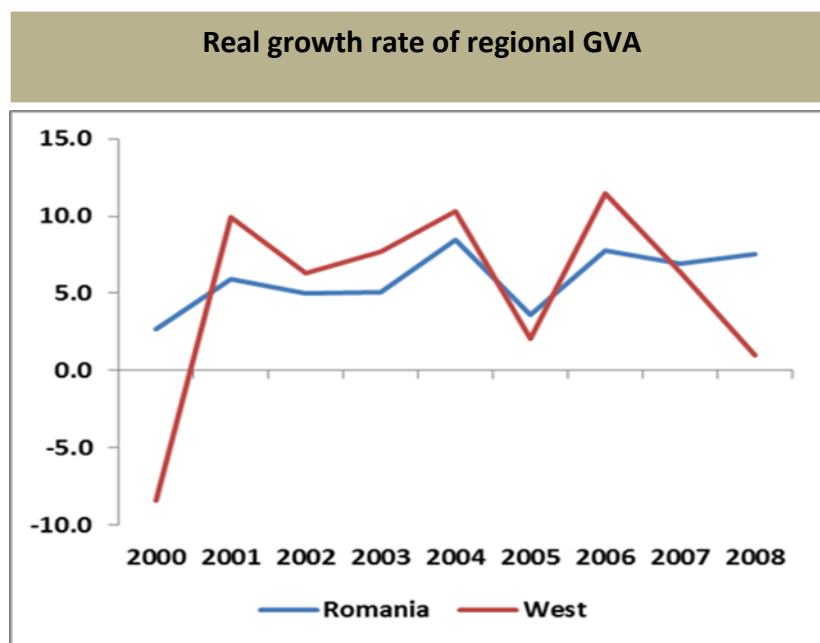
Unemployment rate (%)



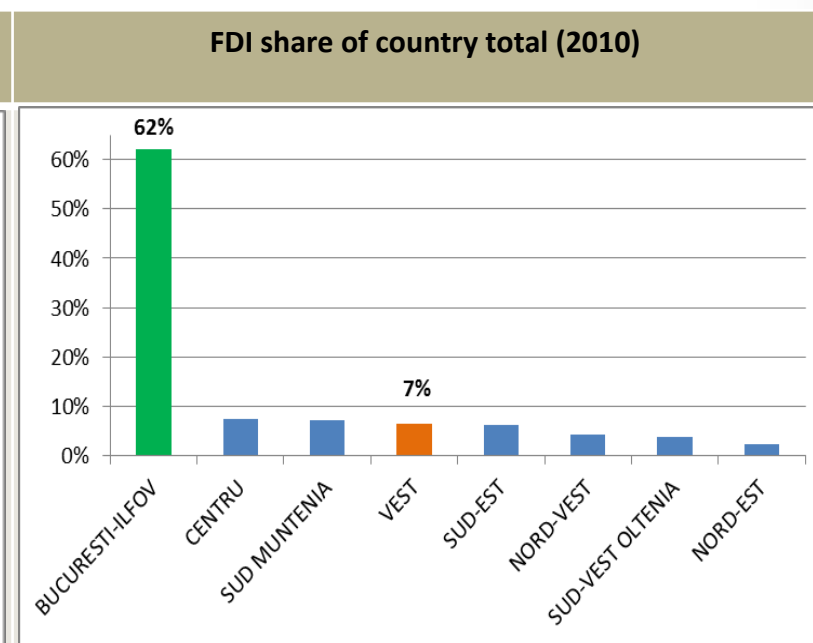
Source: Eurostat

...despite higher volatility and less FDI.

- The evolution of gross value-added (GVA) for the entire region suggest that, in the West, both economic expansion and downturns are more pronounced than for the country as a whole, reflecting a potential higher exposure to foreign cycles.
- Foreign Direct Investment has been lagging behind Bucharest and the central and South-Muntenia region in 2010.



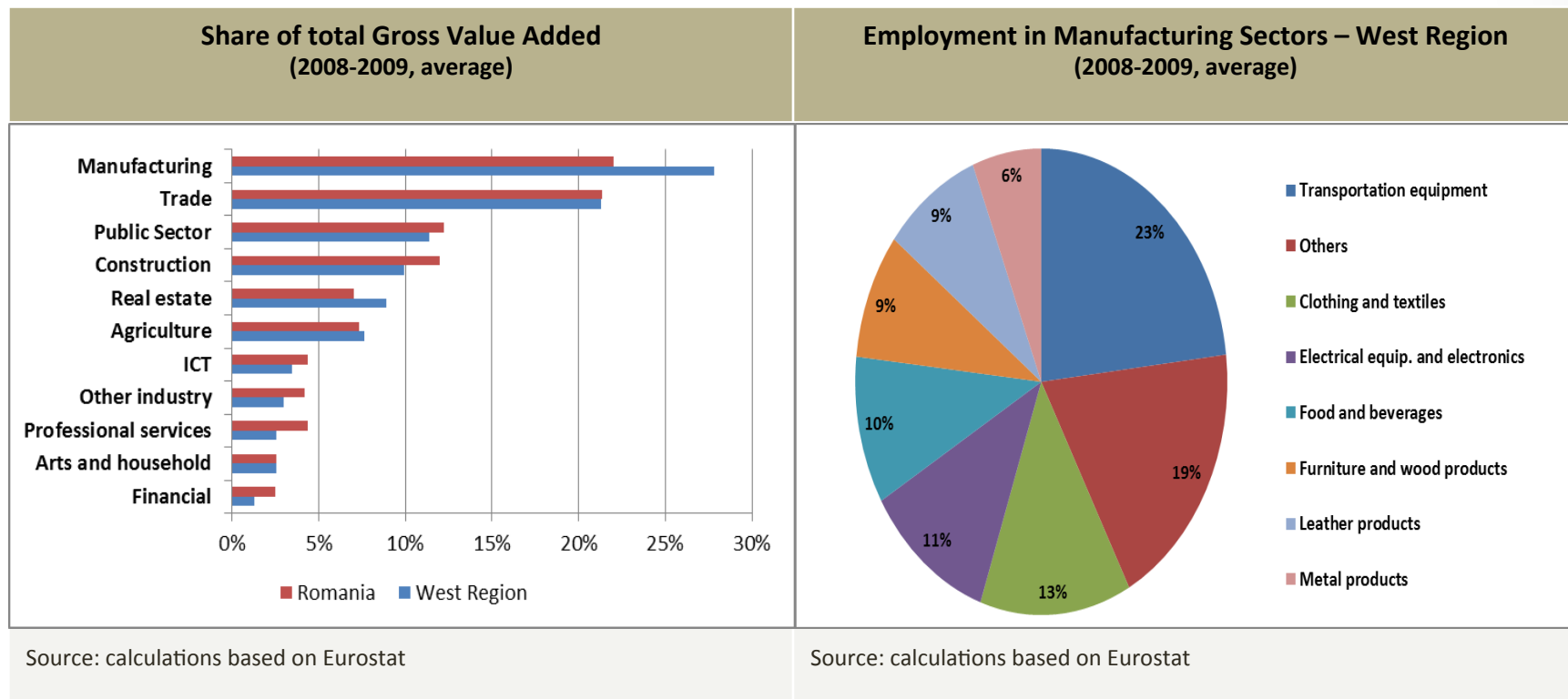
Source: Eurostat



Source: National Bank of Romania

Manufacturing has been the driver of value added performance in the West Region

- The largest share of value added is concentrated in manufacturing, trade, the public sector, and construction.
- Within manufacturing, the most important sectors in terms of employment are: transportation equipment, clothing and textiles, electrical equipment and electronics, and food and beverages.



2. The role of the government to promote sustainable economic growth

At national level...

- The *national government* can enact policies to support the business environment to become more:
 - Productive
 - Competitive domestically and internationally
 - Capable to create high-quality jobs
- These include measures to:
 - Improve competition across the economy
 - Streamline business regulation
 - Improve the innovation potential of the enterprise sector

At local level...

- *Central and local government* can play a role by:
 - **Providing information**
 - **Compensating for externalities**
 - **Coordinating improvements of hard** (roads, electricity, telecommunication) **and soft** (regulation, social networks, education) **infrastructure**

3. Objective

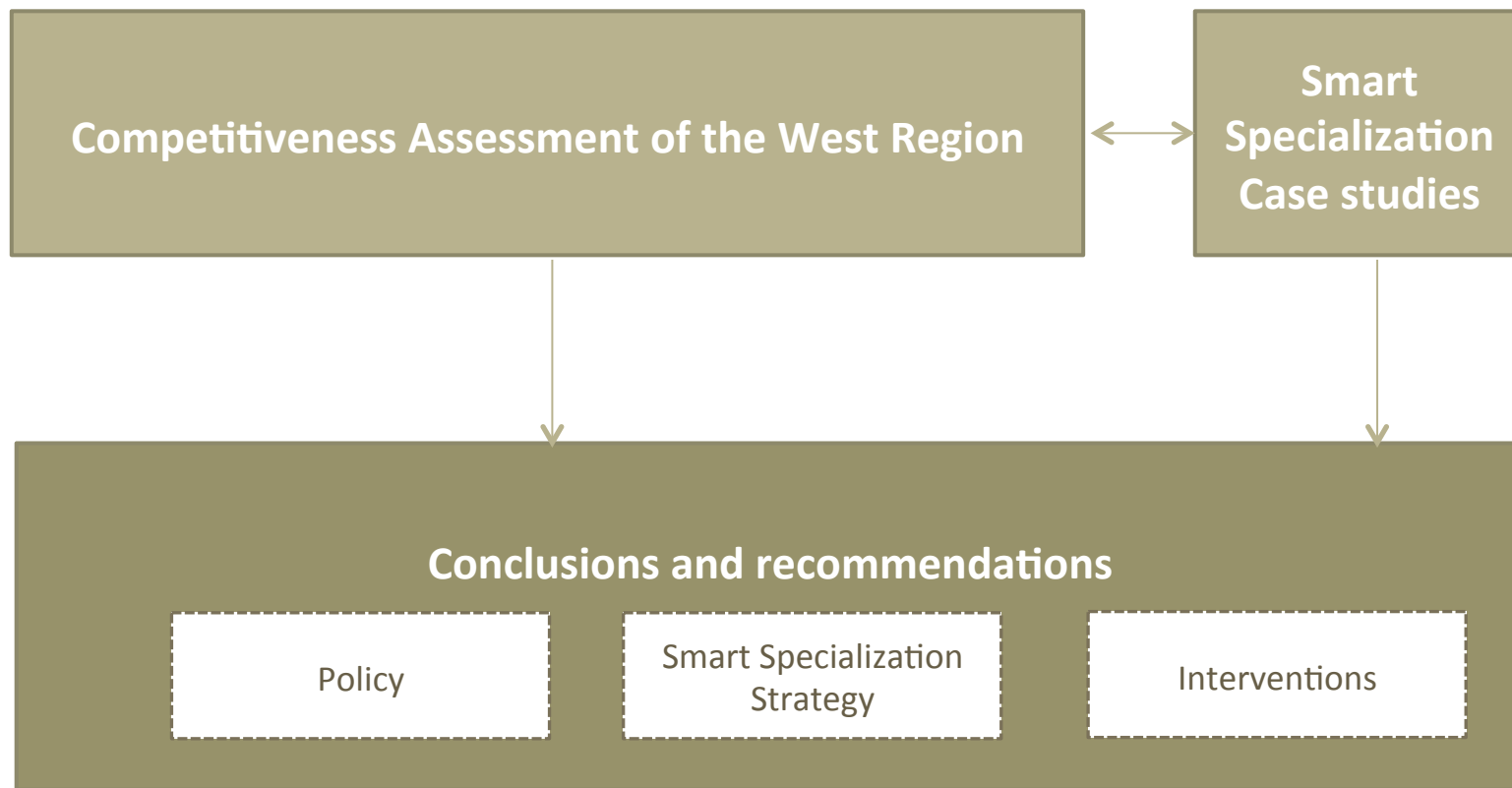
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Identify policy measures and interventions that can enhance the West Region's competitiveness

- In particular, policy measures that are able to
 - **enhance the growth potential of the region,**
 - **facilitate the expansion of the region's exports, and**
 - **expand the range of products and services exported and upgrade the quality and value added of existing products**

4. Approach

Analytical framework



Competitiveness Assessment of the West Region

- Based on a diagnostic framework implemented around the world

Four stages:

1. Performance assessment of the region through its firms
 - Productivity and efficiency
 - Export performance (entry, survival, growth, sophistication, quality)
2. Diagnostics: drivers of firm performance
 - Firm characteristics (size, FDI v domestic)
 - Nature of regional value chains
 - Supply side determinants (skills, logistics, regulatory environment, etc.)
3. Territorial assessment: understanding the region-specific factors shaping performance
 - Endowments and institutions
 - Scale and agglomeration
 - Connectivity and spillovers
 - Productive system: embeddedness and relatedness
4. Identifying policy measures and interventions to enhance competitiveness
 - E.g. R&D and imported inputs (Turkey); export promotion and targeted SME support (FYROM); trade logistics (Kazakhstan)...

Smart Specialization Sector Studies

Objectives:

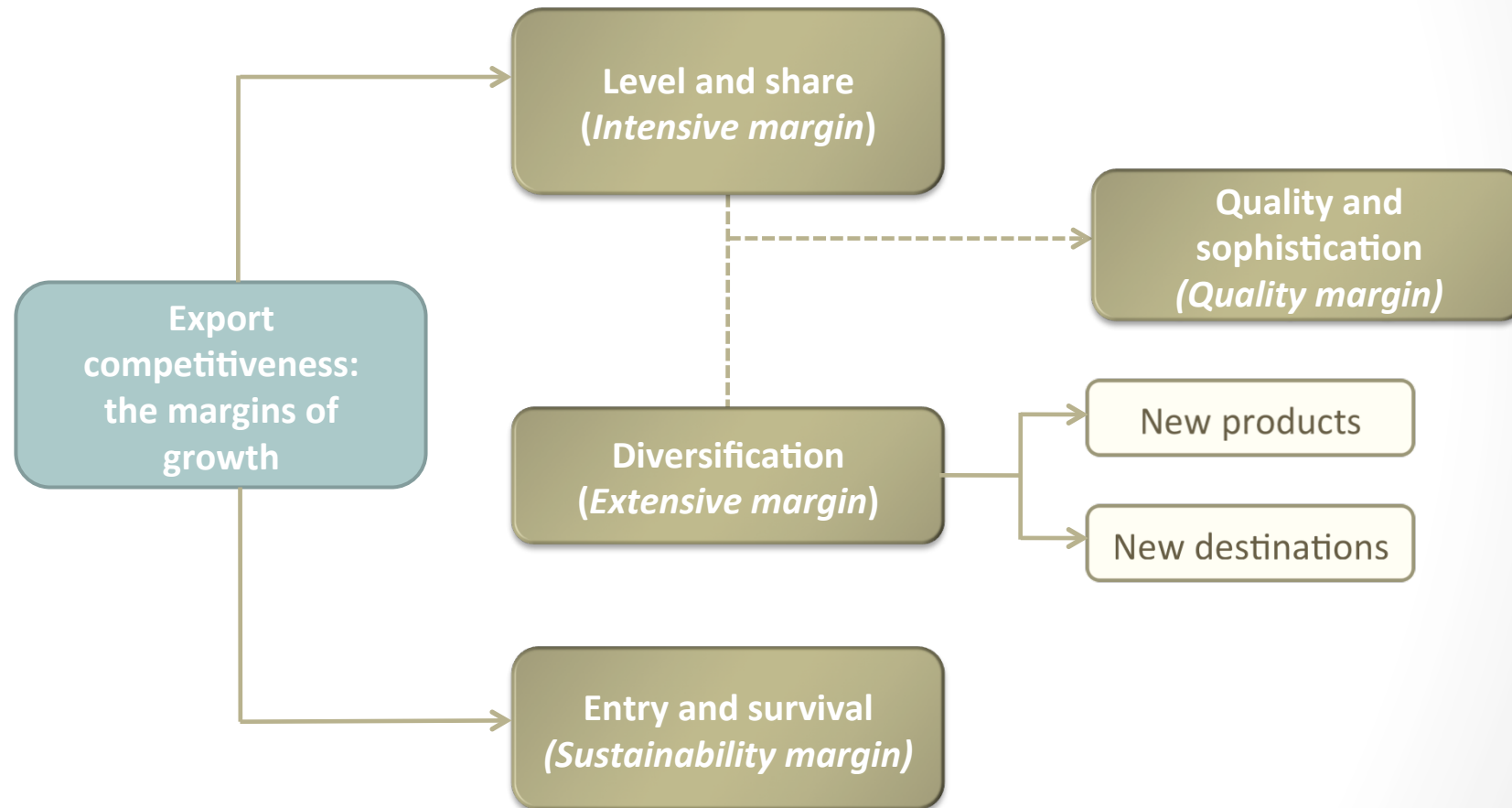
- Case studies will be prepared for key sectors
 - Evaluate strengths and weaknesses of the sector's productive system
 - Identify smart specialization niches within target sectors
 - Identify opportunities arising at the level of business and RTDI

5. Conclusions

- **Recommendations to inform regional/local policies, as well as national policies with an impact on the competitiveness of the West Region's economy**
- **Recommendations to inform the principles and design of EU and nationally funded programs for 2014-2020**
- **Inputs and recommendations for the design and implementation of the West Region's smart specialization strategy for 2014-2020**

ADDITIONAL SLIDES

The Trade Outcomes Analysis covers four broad components:



Specialization, export level, growth and market shares

- How specialized is the region's economy? In which sectors? Is it selling domestically the same things it exports?
- Is the specialization changing over time?
- Are the FDI changing the specialization of the region?
- Is the region's economy oriented towards particular markets? Is the geographical specialization similar to the one of the rest of the country?
- Is there still room for expansion in those markets? If not, which markets are more promising

Diversification

- Is the economy well diversified?
- Does it grow because existing firms sell more, or because of new firms enter the market? And do incumbent firms sell at home the same things that they sell abroad?
- When firms start exporting, what is the pattern? From which markets do they start exporting? Do they move quickly to many markets and many products?
- If changes in specialization are observed at the aggregate level, is this due to existing firms expanding/shifting to new markets and products or is it due to new firms entering the market and replacing dying firms?
- Are these patterns different for different sectors?
- Are the trends in the West Romania region similar to the rest of the country?

Quality and sophistication

- What is the “income” content of a the region’s exports? Does it produce what rich countries produce?
- Can the region count on the existing portfolio of exports for future growth, or will it need to augment the process of “export discovery”?
- Is sophistication illusory when taking into consideration the share of imported parts and components in final value?
- How important is product upgrading as a strategy to become a secure source of economic growth?
- Which firms are driving quality and sophistication upgrade? Where do these firms source inputs predominantly?
- What’s the technological content of the exports from the region compared to the exports of the rest of the country?

Firm level dynamics and survival

- Looking at TFP, are there sectors where there is more scope for efficiency gains?
- Are exporters/FDI critical to the economy of the region?
- How concentrated is export activity?
- Do SMEs suffer particular challenges compared to larger firms?
- Who are the firms that innovate?
- What are entry/exit and survival patterns in the region and in the rest of Romania? Are they different for exporters and non-exporters? Do firms that exit the export market continue to survive /thrive in the domestic market?