Financial instruments designed to increase the competiveness of the European firms

Corduneanu C.[1], Moldovan N.[2], Lobonţ O.[3]

[1] West University of Timişoara, Faculty of Economy and Business Administration, carmen.corduneanu@feaa.uvt.ro
[2] West University of Timişoara, Faculty of Economy and Business Administration, nicoleta.moldovan@feaa.uvt.ro
[3] West University of Timişoara, Faculty of Economy and Business Administration, oana.lobont@feaa.uvt.ro

Abstract. In the new global economy based on knowledge, the maintenance, the increase of life standards and social stability is related to the assurance of competitiveness of the economic structures of any state, regardless their constitutional order and system administration or whether they belong or not to a form of association. The nowadays financial and economic crisis has increased transparency, but it also amplified by contagion the negative effects of structural disparities between different areas and regions spatially dispersed. Anticipating economic and social change, the Member States have decided to restructure the priorities of the resources allocated through the Community financial instruments and programs. They complete the efforts of the European states, towards increasing the competitiveness, which becomes the basic resource for sustainable economic growth. Methods of collecting and processing data and information highlights the performance gaps of the Union at the economic and financial triad, showing the existence of structural problems increased by the last two expansions, the globalization of the market, the demographic decline and the population aging.

Keywords: structural gaps, FEDR, FSE, regional competitiveness.

1 Introduction

Globalization has determined the increase of the interdependence between the world states, the deregulation of markets that extend beyond national borders and a more efficient allocation of resources, being advantageous for the states with high economic competitiveness, which become centers that concentrate capital and advanced technologies. Due to the harmful effects of economic differences, the interest towards increasing productivity, reducing costs, enhancing human capital performance and implementation of modern technologies is crucial and even vital. The elimination of disparities requires, besides attracting direct foreign investments, providing financial resources in order to achieve economic structures based on research and innovation, capable of facing global competition where the firms emphasize globalized market for the products and the services. In the new global order, applying a common policy based on solidarity at European and national policy coordination may become solutions for eliminating disparities of competitiveness between states, which can lead to changing some of them into simple commodity markets.

2 The position of the European Union economy in the triad

2.1 Economic gaps of competitiveness

The synthetic analysis of the competitiveness gaps in the financial and economic triad by GDP growth rate is distorted by the impact of the crises from Latin America and Asia Pacific region on the dynamics of the global economy and is positively influenced by the effect of economic and social cohesion policy applied in the European Union. The reduction of the gap between the growth rate of the EU and the U.S.A. between 1999-2000 from 1.8% to 0.2% for the U.S. economy was followed by an advantage of 0.9% for the European economy in 2001. With the recession from the beginning of the current decade, in the following five years (2001-2005), the average rate of increase of 1.4% in the Union continued to be ahead of the average rate of increase of 2.42% in the U.S., the single year when the European economy had an advantage of 0.9% is 2001. We consider that the outrunning of the growth rate of the Japanese economy by the European economy during 1997-2002 is the impact of Asian crisis that started in 1997 on the Japanese economy in recession, the credit contraction due to the vulnerability of the Japanese banking system that had to face an important portfolio of bad debts. In the next two years the growth gap has been in favor of the Japanese economy, the impact of increasing the prices to raw materials and energy began in 2004 led to a European economic growth rate higher than the Japanese economy.

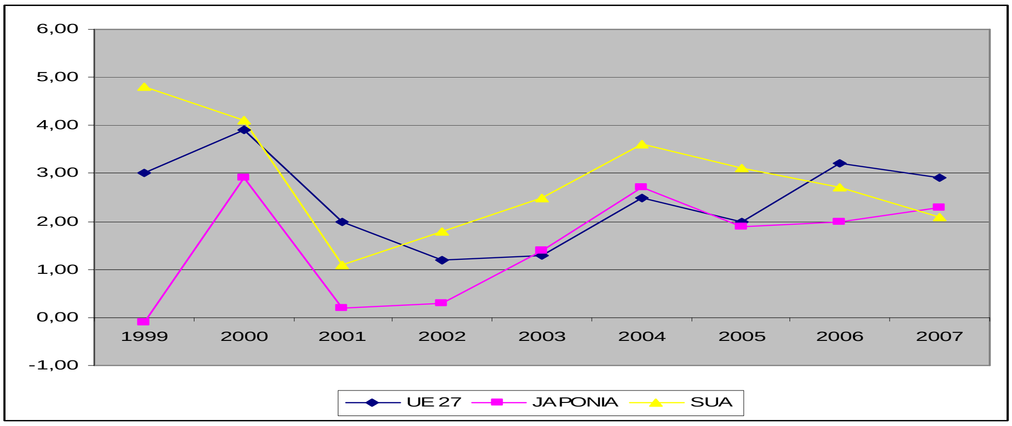


Figure 1 Real GDP growth rate, the 1999-2007period (27-EU, Japan, the U.S.A.)
Source: http://epp.eurostat.ec.europa.eu
Note: data are expressed in current market prices and take into consideration the percentagechange from the previous year

The economic and structural policies implemented after Lisbon, in terms of increased demand all over the world and continuing the investment and appreciation of the euro, have contributed to a growth rate of the European GDP, between 2006-2007, superior to the U.S. economy. In 2007, as the worldwide 5% economic growth was based on the dynamics of economic activity in the emerging countries, the triggering of the financial crisis in August has destabilized the economies of the developed countries, but at the level of 27 EU, the growth rate of 2.9% was only 0.3% below the previous year, while in the U.S.A.the compression of the annual growth from the previous year was of 0.6%. In both economic regions, the external changes have contributed to reducing the falling, but in the EU, the unemployment situated on a downward trend and the profitability of firms were additional factors for the amortization of the initial shock until the moment of the crisis contagion on financial and economic systems which got near the growth rate in 2008.

Refining the analysis

Due to multiple influence internal and external factors, the analysis should be refined on two levels, namely one related to the efforts of the Member States towards investment in the research domain and another related to the degree of employment on the labor market in the triad. During 1995-2005, Japan separates significantly through its efforts made in order to support the innovation process, the research cost representing an average of 3.036% of the GDP. Under the circumstances of the Asian crisis, Japan has targeted funds to increase research, a policy that was also applied by the U.S.A. ,that allocated an average of 2.645% from the GDP, while the Member States managed after the minor crisis from 2000 to guide towards research a slightly higher level.

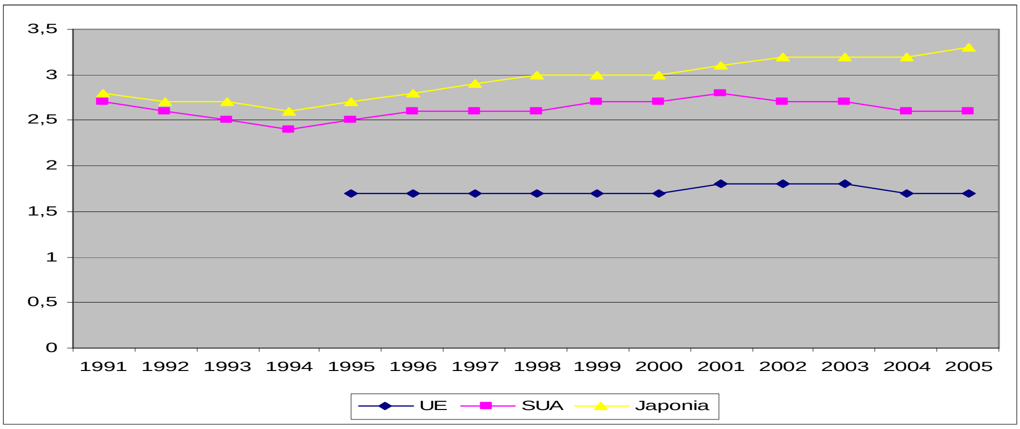


Figure 2 The share from the GDP of the costs spent on research during 1991-2005 (27EU,the USA,Japan)
Source: OECD, Main Science and Technology Indicators, 2007
Note: Data for 27 EU(1991-1994) not available

There is a fall behind in terms of spending for the investment, development, IT research and for non technological investments (with training, new equipment, marketing, design) which represented only 1.727% of the EU's GDP, under the established 3% objective. Removing the gap leads to the support of the private sector through the consolidation of public support in the form of supporting innovative start-ups, of those concerned with the productivity of resources and with finding solutions to problems caused by the climate change, as well as the making of some pilot markets that would encourage the demand for new products and services made by innovative companies.

In a cost-benefit approach, in order to have a real image over the increase or the flow compress of the allocated resources, the efforts must be linked to the GDP dynamics and the effects with the impact of the innovations on it. The allocated resources led to progress, but in different degrees towards higher performance. The report on science, technology and competitiveness made in 2008 by the European Innovation Scoreboard groups the Member States in four categories:

- States with performance in innovation over the average of the Union, where the leader is Germany;
- States with above average performance in innovation, but at a lower echelon to the previous, where Ireland and Austria have the highest growth rate;
- States with under average innovation performance of the Union, where the leader is Cyprus, followed by Portugal;
- States with innovation performance well below the Union average, but which have partially absorbed the gaps, among which Romania and Bulgaria have the fastest performance improvement rhythm.

Moreover, the current crisis has shown that in a globalized economic environment, the investments in research made to support an active process of innovation, is the solution to end the crisis and increase the competitiveness of the economy of the Member States. The strategy applied by Japan in terms of crisis is a confirmation for this line to be followed.

The structural reform of the labor market helped to reduce the gap between the employment rates in the Union as compared to the U.S.A. and Japan, especially in the states that took more advantage of the European strategy that combines economic growth with social justice. Although in the reported period the employment rate remains at a level lower than the other two states, however, as compared to the beginning of the period when the gap between the EU and the U.S.A. was of 12.8% and of 9.3% compared to Japan, it was reduced to 4.8% from the U.S.A. and 5% from Japan as a result of the European strategy regarding employment. As far as the flows of labor are concerned, changes that reflect their heading towards value added tax sectors, the increased attractiveness of the European space for human capital in Japan, the USA, but also in other geographical areas, the increasing number of researchers has appeared.

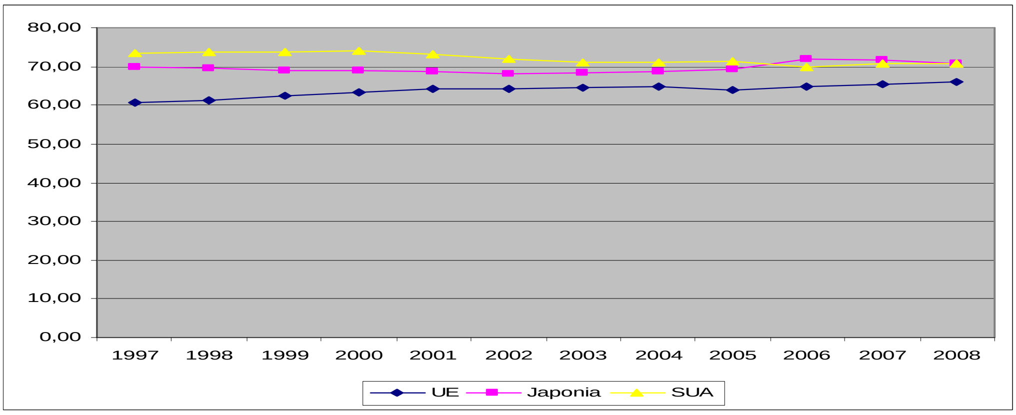


Figure 3 Employment rate of employment,1997-2008(EU,Japan,theUSA)
Source: http://epp.eurostat.ec.europa.eu

A positive aspect is the overall employment growth, among critical categories (women, youth, elderly) while reducing long-term unemployment and the average period of unemployment due to social and economic changes, the effect of the applied reforms and a sensitivity reduced to cyclical fluctuations of the economy. Another negative aspect is the major disparities between the Member States.

3 Financial instruments designed to increase competitiveness and eliminate the regional gaps

3.1 Strategic Dimension of the new EU community policy

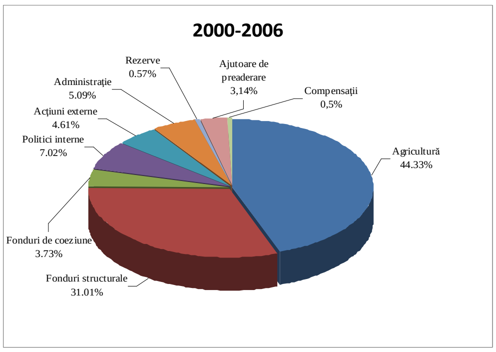
The reforms introduced by the current multiannual financial framework for modernizing the economy of the Union by simplifying and increasing the efficiency of the cohesion policy, as a result of the decentralization of responsibilities related to project management by replacing the community rules to national rules of eligibility, by reducing the administrative costs, by increasing transparency and communication. In order to allow growth and competitiveness by facilitating access to finance for SMEs, the Commission launched together with the European Investment Bank and the European Investment Fund, Jeremy initiative, which provides access to micro credits, venture capital, loans, guarantees, etc. by accessing the resources derived from the structural funds on commercial terms, thus replacing the traditional allocated sums with allowances. Another initiative launched with the European Investment Bank and the European Bank for Reconstruction and Development where Kreditanstalt also joined is the Jaspers initiative through which the banks offer expertise to the last 12 Member States for the development of major projects in order to modernize infrastructure, in research and development, city transport, health, potentially eligible for funding from the ERDF and Cohesion Fund. The third initiative, Jessica, combines grants to programs for investment in urban areas with loans and expertise of the European Bank of Investment and Development and from the Development Bank which cooperates within ERDF in order to support sustainable investment, economic growth and creating jobs in urban areas.

EuroEconomica
Issue 3(26)/2010 ISSN: 1582-8859

In order to create priority directions established at European level and represented by research and technological development, innovation, information society, transport, energy, environment, investment in human capital, labor market policy, adapting workers and firms to the Member States and regions, the efforts must be focused on specific national priorities that correspond to the Community priorities. At the same time they enjoy a greater freedom in managing operational programs.

3.2 Restructuring the Community objectives and financial instruments of intervention

Along with increasing the number of the Member States and the increasing of the regional disparities, the cohesion policy has suffered a structural change at the specific objectives level, on the application instruments and financial allocations. As compared to the previous financial framework (2000-2006) in which the structural operations were presented separately, in the current financial framework (2007-2013) most of them are included at the lasting growth in the cohesion chapter. Practically speaking, it was a new classification of commitment credits in the multiannual financial perspective, the main guidelines being sustainable growth (44.42%), divided between competitiveness (8.78%) and cohesion (35.64%) and natural resources (42, 73%), and divided between farm payments and other natural resources.



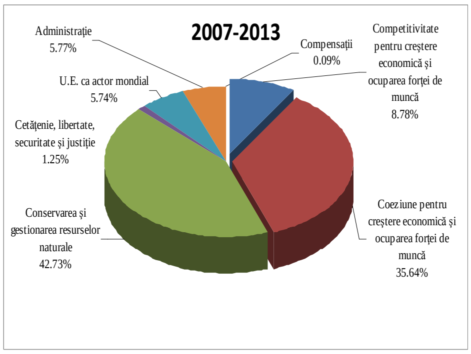


Figure 4 Allocation of appropriations angajamament in in
the multiannual financial framework 2000-2006
Source: http://eur-lex.europa.eu/LexUriServ/
Note: cohesion and structural funds are for structural activities growth and growth

Figure 5 Allocation of appropriations angajamament
the multiannual financial framework 2007-2013
Source: http://eur-lex.europa.eu/LexUriServ
Note: Competitiveness and cohesion for economic for occupying the labor are targeted towards sustainable

Instruments, mechanisms and measures that should focus the policies at the Community and national levels towards innovation, human capital development, and flexibility of work arrangements and development of ecological technologies that would ensure effective exploitation of resources have been restructured as guidance. By the transfer of the European Fund for Orientation and FEOGA Agricultural Guarantee towards the Common Agricultural Policy and the Financial Instrument for Fishing Guidance towards the common fisheries policy, financial instruments to finance economic and social cohesion policy represented by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund(FC) represents structural instruments through which the community works towards eliminating the existing disparities between the regions in the Community area, economically and socially speaking, under the convergence objective. The importance that the Member States give to eliminating disparities in competitiveness and the role that the human capital has ,led to revealing the distinct objective of competitiveness and employment on the account of the European Social Fund of Regional Development (ESFRD) and the European Social Fund (ESF).

Since the year 2007, there has been a reorganization of the anterior objectives and community initiatives in three major objectives: convergence, made to support the regions that remained behind in terms of economy, regional competitiveness and employment, then made to support the other regions in accordance with the Lisbon agreement and European territorial cooperation, finally created in order to balance development, encourage cooperation and exchange of best practices among its regions.

Table 1 Distribution of the objectives and instruments of the European Budget allocations

Thousands billion Euros

FINANCIAL INSTRUMENTS	BUDGET APPROPRIATIONS FOR THE EUROPEAN UNION								
	2007		2008		2009		2010		
		%		%		%		%	
Objective: CONVERGENCE	**7,89**	**6,83**	**14,59**	**12,52**	**17,19**	**14,8**	**26,99**	**22,40**	
ERDF	2,96	2,56	9,48	8,14	9,59	8,26	14,88	12,35	Regions with GDP / inhabitant <75% of the EU
FSE	1,04	0,90	3,17	2,72	4,91	4,23	5,26	4,37	
FC	3,89	3,37	1,94	1,66	2,69	2,31	6,85	5,68	**Member States with GNP <90% of the EU**
Objective: REGIONAL COMPETITIVENESS AND EMPLOYMENT	**1,08**	**0,94**	**3,11**	**2,66**	**4,48**	**3,86**	**5,52**	**4,48**	
ERDF	0,6	0,52	2,34	2,00	2,46	2,12	3,2	2,66	**NUTS I or NUTS II regions proposed by Member States**
FSE	0,48	0,42	0,77	0,66	2,02	1,74	2,32	1,82	
Objective: EUROPEAN TERRITORIAL COOPERATION	**0,13**	**0,11**	**0,4**	**0,34**	**0,85**	**0,73**	**0,52**	**0,43**	
ERDF	0,13	0,11	0,4	0,34	0,85	0,73	0,52	0,43	**Border regions and areas of transnational cooperation**
TOTAL VOLUME OF APPROPRIATIONS	**115,5**	**100**	**116,5**	**100**	**116,1**	**100**	**120,5**	**100**	

The source: http://ec.europa.eu/budget/index.htm; http://eur-lex.europa.eu.
Note: Expression of percentage of budget allocations is made in relation to total loans, in the years 2007-2010

The available resources are primarily allocated to the Convergence objective, the regional competitiveness and employment as beneficiary being on the second place before the European territorial cooperation objective. The guideline priority to the convergence objective is motivated by the existence of important differences resulted from the last two enlargements between the development of regions and the Member States of the 15EU as compared to the new Member States, where the average GDP / inhabitant is well below the average of 27 EU.

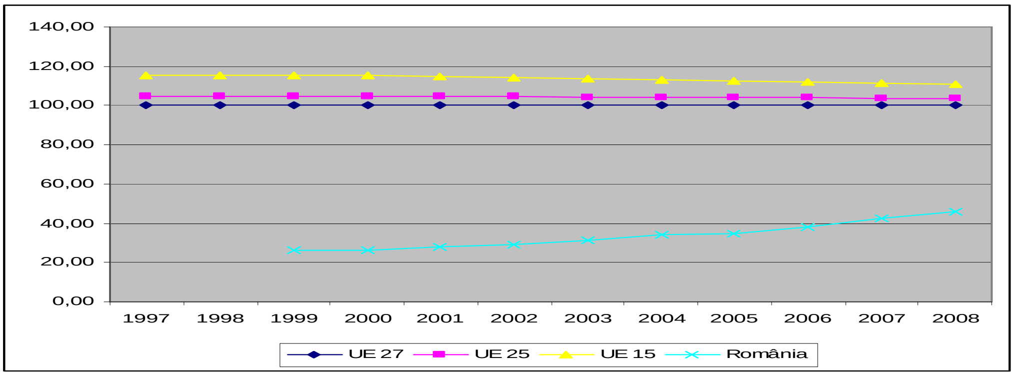


Figure 6 GDP/person, 1997-2008 (27-EU, 25 EU, 15 EU, Romania)
Source: http://epp.eurostat.ec.europa.eu/tgm/table
Notes: 1. GDP/place is expressed in relation to the 27EU, the average being established as equal to 100
2. Romania: for 2007 and 2008 data are forecast

Thus, in 2008, GDP / inhabitant represented in Slovenia 90.7%, 80.1% in the Czech Republic, 71.9% in Slovakia, 62.8% in Hungary, 63.1% in Croatia, 61.1% in Lithuania, 57.6% in Poland, 55.8% in Latvia, 45.8% in Romania, 40.2%in Bulgaria of the 27 EU average, below this average being states such as Portugal, Greece, Cyprus, Malta.

During the 2007-2013 period in order to eliminate disparities in socio-economic development and to create a basis for the development of a society based on knowledge. Romania can receive about 8.5 million Euros / day respectively over 30 billion throughout the entire period from the European Fund for Regional Development and the Cohesion Fund.

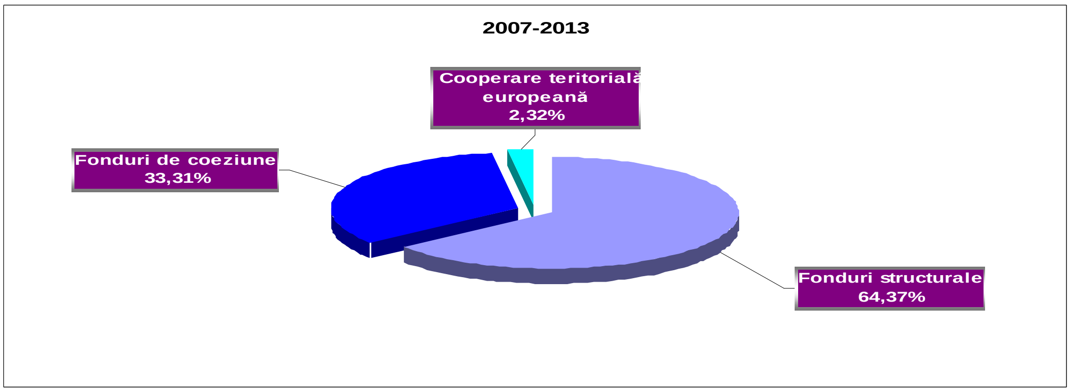


Figure 7 **Funds allocated to Romania from the EU budget during 2007-2013 in order to achieve the objectives Convergence and European Territorial Cooperation**
Source: http://www.adrnordest.ro/index
Note: structural and cohesion funds are for to achieving the Convergence objective

The priority orientation of funds for regions lagging behind is justified by the need to support integration and corresponds to the principle of subsidiary. However in the context of the problems caused by globalization there are the opinions of the countries that have previously received the benefits of the EU cohesion policy, to guide their efforts towards supporting the competitiveness of regions due to external economic zones. Obviously this would be advantageous for the old Member States, to the prejudice of the last 12 countries and would also bring into discussion the stability of the European construction due to maintenance or deepening of the disparities in competitiveness in the economies of the Member States. Moreover, because of the lack of internal competitiveness, the desire to achieve competitiveness on the global market in the context of market volatility, increased competition, and outsourcing of products and services, is difficult to be sustained.

4 The role of SMEs in increasing their competitiveness and their adaption to market requirements

Ensuring sustainable growth in the Union, capable to provide increased life quality standards and creating new jobs, requires the Member States to accelerate the needed reforms for sustaining economic growth, employment and eliminating disparities of competitiveness through efforts that would complete the funding that comes from the EU budget. These efforts should be targeted to areas of activity that have a real potential for growth and to innovative firms, together with actions directed towards supporting small and medium sized firms, since they represent 99.8% of all companies that contribute to the UE's GDP, about 60% and provides approximately 67.1% of jobs.

Table 2 Share of SMEs and employees in the 27 EU and Romania

	Number of SMEs		Number of persons employed in SMEs	
	milion	%	milion	%
UE 27	19,6	99,8	85	67,1
Romania	0,41	99,5	2,46	61

Source: http://ec.europa.eu/enterprise/policies/sme
Note: Data are for 2005

The difficult access in financing, the high cost of labor and the reduction of buying power of the consumers are negative factors that influence the start and support by SMEs of the innovative projects designed to produce products or services or to improve the existing ones. Since the lack of innovation is a reality (higher in construction and transport) efforts are required to be directed towards obtaining incomes by offering new products made with low consumption of resources. The increased quality and variety of products are solutions imposed by increasing market competition, while providing information to government agencies about entering on new foreign markets. Competitiveness gap is reflected in the low level of the volume of trades made in the export volume as well as in the reduced presence of SMEs on the foreign markets through the creation of affiliates.

Efforts are required to be oriented in the direction of regional innovation programs, protection of intellectual creation, establishing relations between the production and research system, facilitating access to public markets, targeting the educational systems towards innovation. Along with the increase of the expenditures on GDP research, it is necessary to increase the number of researchers, closely related to the obtained results, assessed by the dynamic of the new and improved technologies.

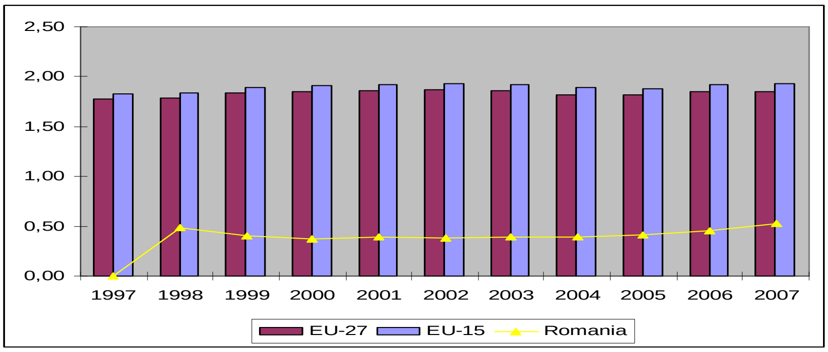


Figure 8 the research-development expenditure in GDP during 1997-2007 (EU 27, EU 15, RO)
Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics.search_database

As for the Romanian SMEs, their first priority is to increase by accumulation at the expense of performance, due to the involved high costs. There are still concerns on the line of introducing innovative elements in management, on the technical equipment and of the products and services offered to consumers while maintaining the activity object at the expense of diversification. Although

the capacity for innovation and creating new services is reduced, there are efforts to the SMEs level in industry, trade, agriculture, while the innovation in construction and transportation is slow. Because of the lack of financial resources, entering the foreign market is reduced, and the enterprises focused on CMT are furthermore affected by the lack of their own markets and of their own manufacturing brands. In addition, entering the foreign markets is difficult due to lack of the information about them.
The competitiveness gap resulted from the reduced level of the innovative processes; the poor adaptation to market requirements is reflected in the low level of productivity. Therefore, while developing entrepreneurship it is necessary to create productive investment, to facilitate access to Community financing instruments and credits, to expand the use of information technology, to develop partnerships with research institutes and universities in the research, technology development and innovation domain.

5 Conclusion

Faced with the effects of rapid changes resulting from liberalization of trade and capital flows, increased competition in the context of globalized markets, the Member States have become aware of the importance of increasing competitiveness and continuing efforts to eliminate existing the disparities that exist between the integrated European area regions, in order to face the challenges generated by economic and financial globalization. In the global economy are the main factors of competitiveness are education, innovation, the research institutes, the firms capable of providing increased productivity, quality goods and services to ensure sustainable economic growth and quality of life of the European citizens. The support of the innovation process depends on the quality and performance of human capital, the efficiency of using the firm resources, their openness towards innovation in order to create environmentally friendly technologies, new products and services with high added value.

6 References

http://www.epp.eurostat.ec.europa.eu
http://www.eur-lex.europa.eu
http://www.oecd.org
http://www.adrnordest.ro