

# Territorial cohesion and regional development in the context of EU integration – the case of Macedonia

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## Abstract

*The strategic orientation and candidate status for accession to the European Union clearly point toward the country's European perspective. In this context, strengthening the territorial cohesion and balanced regional development become crucial for convergence with the EU integration process. Hence, this paper aims at a) disclosing the regional disparities of the country; b) identifying the state of situation in the field of territorial cooperation; c) perceiving potentials for the efficient use of the territorial resource. Secondary data of the last five years, the Official Journal and the Bureau for balanced regional development are used in order to assess the changes in disparity between the eight planning regions in Macedonia while implementing the new policy for balanced regional development. We provide testing for the correlation between the changes in development indices for the two consecutive periods and funds allocated for regional projects during the five-year policy implementation phase.*

*Keywords:* territorial cohesion, regional development, EU integration

## 1. Introduction

Each territory has its own specific combination of resources that needs to be used efficiently in accordance with adopted regulations, instruments and

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policies. The concept of territorial cohesion implies implementing well-coordinated, pre-planned and related activities aimed at achieving dynamic and sustainable economic growth, a more efficient use of regional potentials and qualitative improvements of the living conditions. Strengthening territorial cohesion and achieving balanced regional development of the country is a basic prerequisite for a more prosperous social and economic environment, as well as for improving the future EU prospects.

Hence, studying the territorial dimension of national development should incorporate issues related to the current state of territorial development, analysis of regional disparities and assessment of opportunities to leverage the territorial capital. Therefore, the country's European perspective needs to be embedded into the key strategic documents and policies. It has to be reflected in the design of regional development policies so as to strengthen territorial cohesion and make economic development even more dynamic. Hence, advancing territorial development involves the analysis of potentials for more efficient allocation and use of spatial resources for improving regional welfare, but also the chance of developing mechanisms, policies and institutions for fostering regional development with the aim of achieving a better inter-regional convergence and territorial coherence.

## **2. Territorial cohesion: a conceptual framework**

The contemporary economic theory has increasingly emphasized the importance of spatial factors in the analysis of economic growth and national competitiveness. Topics in regional economics include the location theory and the regional development theory. Recent research has incorporated the territorial dimension in the concept of spatial organization and interconnections in clusters with the aim of increasing the competitive advantage (Porter, 1998). The spatial aspects of the economy have been also accentuated by the concept of new economic geography (Fujita, Krugman, Venables, 1999). A distinctive feature of the new economic geography is seen in the cumulative economic mechanisms of spatial dispersion and concentration as well as in the impact of spatially-related factors on dynamic economic processes in the space (Szlachta, Zaucha, 2010).

Remarkable emphasis on territorial aspects of development has been put especially after the nineties. At the time, studies were mainly focused on examining the possibilities to reduce the economic and social disparities between regions.

In this context, it is of special importance to highlight the contribution of numerous EU and OECD documents, studies and regulations intended to explain and clearly specify the components, factors and effects of territorial cohesion.

As to territorial development, the first notable insights were offered by the OECD study on territorial economy. It states that increased competitiveness, convergence and growth are considered the new paradigm of regional policies as

determined by the territorial capital at disposal. Popularized by the OECD Territorial Outlook in 2001, Territorial Capital can refer to "the stock of assets which form the basis for endogenous development in each city and region, as well as to the institutions, modes of decision-making and professional skills to make best use of those assets." (OECD, 2001, p.13)

Initial elements in shaping the concept of territorial cohesion emerge from the policies and activities related to spatial planning and regional development. By adopting the European Spatial Development Perspective, the EU member states have established the future objectives and directions of territorial development. It is therefore emphasized that spatial development policies aim at balanced and sustainable development of the EU territory by recording equal achievements of three fundamental goals: "economic and social cohesion; conservation and management of natural resources and the cultural heritage; and more balanced competitiveness of the European territory." (EC, 1999, p.10).

The new approach of the regional development policy, integrated within the EU cohesion policy 2007-2013, points toward three objectives: convergence, regional competitiveness and employment, and European territorial cooperation. They clearly indicate that cohesion policy involves the economic, social and territorial dimensions intended for "a more balanced development by reducing existing disparities, avoiding territorial imbalances and making both sectoral policies which have a spatial impact and a more coherent regional policy". (EC, 2004, p.27) The Green paper on territorial cohesion considers territorial diversity to be the potential for improving regional cooperation and for strengthening territorial integration. In this context, "the concept of territorial cohesion builds bridges between economic effectiveness, social cohesion and ecological balance, putting sustainable development at the heart of policy design" (EC, 2008, p.3).

The term territorial cohesion was first mentioned in the Treaty of Amsterdam, while the Lisbon Treaty officially introduced the third dimension, territorial cohesion. It will be an integral part of the EU cohesion policy. The Treaty states that the Union "shall promote economic, social and territorial cohesion, and solidarity among Member States." (Article 3 – TEU, 1992, p.3) Strengthening cohesion will support the EU harmonious development by "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions" (Article 174 - TFEU, 2007, p.119).

The Europe 2020 strategy provides new momentum and further support of regional development and territorial cohesion since the balanced regional development is more than necessary to promote smart, sustainable and inclusive growth. Territorial Agenda 2020 goes along with the Europe 2020 strategic framework and provides for further development of territorial cohesion. The territorial approach is a key concept for harmonising different development paradigms such as sustainability, convergence (solidarity between regions), and regional competitiveness. The best balance of economic, environmental and

social needs has to be specific to each particular territory. This harmonisation is strongly linked to the Europe 2020 Strategy (The Territorial State and Perspectives of the European Union, 2011).

Territorial Agenda 2020 defines the territorial cohesion as “a set of principles for harmonious, balanced, efficient, sustainable territorial development” (Territorial Agenda, 2020, p.4). Six territorial priorities are therefore designed, such as: a) Promoting polycentric and balanced territorial development, b) Encouraging integrated development in cities, rural and specific regions; c) Territorial integration in cross-border and transnational functional regions; d) Ensuring global competitiveness of the regions based on strong local economies; e) Improving territorial connectivity for individuals, communities and enterprises; f) Managing and connecting ecological, landscape and cultural values of regions.

The above mentioned EU documents and activities emphasize many aspects indicating the complexity of the territorial cohesion concept. In general, territorial cohesion implies the efficient use of the territorial potentials, better territorial cooperation and functional integration of different territorial levels aimed at creating harmonious, balanced and sustainable territorial structure. The most recent studies underline that territorial cohesion as a normative policy concept can, from an analytical perspective, be framed in manifold ways, including socio-economic convergence, economic competitiveness, spatial planning or policy coherence (Othengrafen, Cornett, 2013).

The modern approaches perceive territorial cohesion as “the process of promoting a more cohesive and balanced territory, by: (a) supporting the reduction of socio-economic territorial imbalances; (b) promoting environmental sustainability; (c) reinforcing and improving the territorial cooperation / governance processes; and (d) reinforcing and establishing a more polycentric urban system” (E. Medeiros, 2011, p.11).

In this context, the evidence suggests that territorial cohesion integrates the three key components: a) territorial efficiency as determined by the efficiency of available resources, competitiveness, attractiveness and accessibility to a certain territory; b) the territorial quality covering dimensions related to the quality of living and working conditions, access to services of general interest and knowledge; c) territorial identity decided upon the existing social capital, cultural heritage, ability to develop a common vision for the future, creativity and competitive advantage of the territory (Camagni, 2007, ESPON, 2005).

Territorial cohesion is an integral concept promoting the coherence of endogenous and exogenous variables (internal and external components). It therefore supports the harmonious development and coherence within the regional entity, at the intraregional level. The internal cohesion is governed by distribution and concentration of functions and formation of functional networks

at the regional level, the established interactions between different sectoral systems likely to produce synergies and specific extra-territorial qualities, as well as by the human activities improving the territorial identity. On the other hand, territorial cohesion involves creating more balanced interregional relations, overcoming the regional disparities and achieving coherence between different spatial entities. In this context, the external cohesion of the region is determined by the relations and networks established with the other regions, as well as the access to transport corridors and axes of international development (Jan Vogelij, 2010).

It is more than evident that the modern territorial discourse reveals the complex and layered content of such concepts covering functional, structural, valuable and institutional aspects grounded in the necessity to build an integrative and coherent development platform.

### **3. Territorial profile of Macedonia – development disparities, institutional and policy framework**

While the EU's basic strategic benchmark is to achieve balanced regional development and better territorial cohesion, these issues have long been neglected and marginalized in Macedonia's development projections. During the past two decades, the country has undergone the process of deep reforms facing the new economic and political problems and challenges.

In other words, transition has evoked broadening the interregional disparities at the national level. One may note an increased concentration and intensity of activities in certain regions and stagnation in the development of others. More specifically, there is a huge disparity in terms of economic and social development between the "centre" and the rest. The past two decades were dominated by the traditional top-down policy approach according to which the main regional development responsibility is handled at the national level, i.e. it is decided upon the centralized policies of national development. Such an approach does not stimulate regional links and mutual spillover of the regional development effects. This is clearly indicated in the Strategy for Regional Development of Macedonia 2009-2019 (Official Journal, 2009). It states that there are huge disparities between the centre (Skopje) and other parts of the country. The long absence of a regional development policy has greatly contributed to such a situation thus producing a monocentric development model. Thus, the Center, for its economic and other social characteristics, has been substantially separated from the other areas of Macedonia.

Income inequality reflects the regional development disparities implying additional social problems. The problems with increased level of unemployment are more than obvious in less developed regions sparking the labour migration flows towards more developed ones and, consequently, reducing the regional perspectives for more dynamic economic growth. At the same time, one may

note a higher concentration of poor population in less developed regions with certain implications in terms of social exclusion.

The possibility to achieve balanced regional development may perhaps influence both the economic growth of the country and the potentials to improve competitiveness, living conditions and standard of the populations.

The regional development issues in the Republic of Macedonia have not been handled properly during the transition. Thus, the EU cohesion policy should be a practical guide to policy making. Regional development policies are designed to support regional synergies and to provide more efficient articulation of activities at the regional level with the aim of achieving the common development goals and priorities. In this context, regional development policies are supposed to embody a complex set of measures for developing the business sector, increasing the attractiveness to invest, improving the infrastructure and environment, as well as advancing the conditions in the fields of education, health and culture.

On the road to European integration, eight statistical-, and then planning regions at NUTS<sup>5</sup> 3 level were created in the Republic of Macedonia. The planning regions exhibit a huge disparity reflected in the challenges of the balanced regional development policy. Since 2007, the proposed and actual policy has followed the model of polycentric development focused on levelling development disparities between regions and, thus, providing greater support to less developed regions.

Therefore, it should be assessed if the 2009-2012 funding allocations by region had an impact on changes in the development index in the given regions. More specifically, certain values of development indices have been determined for 2008-2012, whilst new projections have been released for 2013-2017 (Table 1).

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<sup>5</sup> Nomenclature of territorial units for statistics.

**Table 1. Development indices 2008-2012; 2013-2017**

Region	Development indices 2008-2012	Development indices 2013 -2017
Skopje	1.48	1.51
South East	0.89	0.97
Pelagonia	0.73	0.91
South West	0.72	0.81
Vardar	0.72	0.74
East	0.69	0.96
Polog	0.67	0.82
North East	0.56	0.63

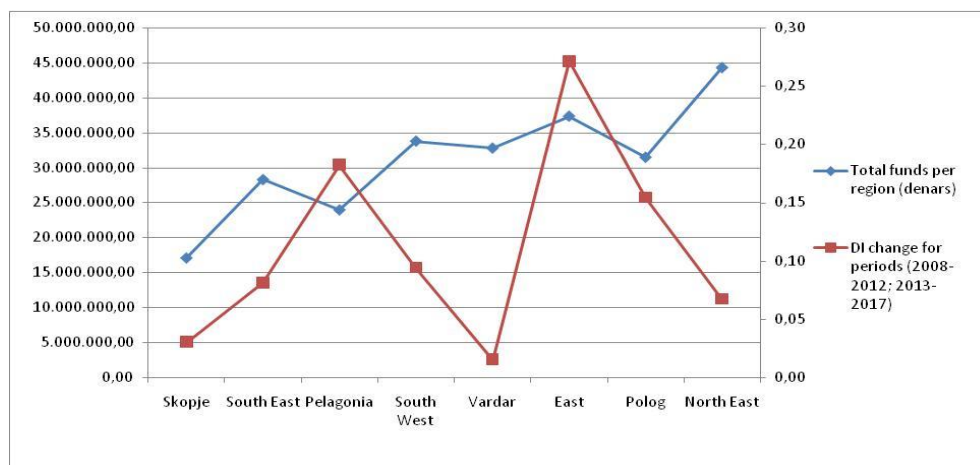
*Source:* Government Decision on the classification of the planning regions of Macedonia according to the development indices<sup>6</sup> for the period 2008-2012, Official Journal of Republic of Macedonia 162/2008 and Government Decision on classification of the planning regions of Macedonia according to the development indices for the period 2013-2017, Official Journal of Republic of Macedonia 88/2013.

The indicated values also determine the allocations by region aimed at leveling the disparities in regional development. Development indices are derived from the demographic and socio-economic indices of each region. Hence, the allocations of the previous programming period are expected to affect the changes towards balancing development indices by region for the projected period.

However, the total allocations by region in line with the balanced regional development policy for 2009-2012 and the change in development indices between the first and second period of projected indices (2008-2012 and 2013-2017) indicate that the funds have not affected the change in projections. Hence, although Vardar and East region have received almost equal allocations for 2009-2012, nevertheless, an obvious difference is visible in the changes of development index over time (Vardar with only 0.02 and the East with even 0.27) (Table 2).

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<sup>6</sup> Range of indicators used for calculation of the development index includes: GDP; budget income per capita; total added value growth; unemployment rate; rate of natural increase; ageing quotient; net migration; graduated students per 1000 capita.

**Figure 1. Total funds vs. DI change (periods (2008-2012) - (2013-2017))**

*Source:* Bureau for Balanced Regional Development, State Statistical Office in RM, Regions of the Republic of Macedonia, 2010, 2012, 2013; Own calculations

The analysis clearly indicates that the allocations by region according to the policy for balanced regional development have not (or at least very little) affected the change in development index, i.e., it depends on some other factors. This is also confirmed by the correlation coefficient between the two variables (allocations and change in development index). That is to say, the value of  $r=0.19$  points toward a positive, but weak (almost negligible) correlation.

**Table 2. Development indices 2008-2012; 2013-2017**

Region	Total funds per region (denars)	DI change for periods (2008-2012; 2013-2017)
Skopje	17.085.164,00	0,03
South East	28.299.817,00	0,08
Pelagonia	23.966.480,00	0,18
South West	33.800.888,00	0,09
Vardar	32.810.919,00	0,02
East	37.372.843,00	0,27
Polog	31.492.906,00	0,15
North East	44.316.750,00	0,07

*Source:* Bureau for Balanced Regional Development, Official Journal of the Republic of Macedonia, 2008, 2013; Own calculations



#### **4. Strengthening territorial cohesion: the impact of EU programmes**

The findings based on socio-economic indicators clearly designate Macedonia's lagging position compared to the EU countries. In such a situation, the EU financial and technical help significantly supports the reforms and contributes both to overcoming problems more easily, to intensifying socioeconomic development and to building the capacities for sustainable development. Special emphasis should be therefore placed on the EU funds intended to foster the territorial cooperation. The Instrument for Pre-accession Assistance (IPA) directly supports territorial development and promotes the cohesion of neighbouring countries. Overcoming the political problems and the strongly expressed animosity in the Western Balkans has given rise to a new political constellation based on democratic principles. These changes have opened a new space both to reaffirm regional cooperation and overcome polarization. The EU programmes for cross-border cooperation have greatly contributed to reviving interregional cooperation and establishing a new platform for territorial development based on mutual interests and needs. In this context, the EU is considered an essential driving force of the Western Balkans in the period to come.

IPA funds for 2007-2013 involve five components. Components I and II (Transition Assistance and Institution Building; Cross-Border Cooperation, respectively) are open to all beneficiary countries, whereas Components III, IV and V (Regional Development; Human Resources Development; Rural Development, respectively) are open to Candidate countries only. The candidates are also responsible for managing EU funds, which is relevant for membership, especially in terms of preparation to absorb the EU structural and cohesion funds upon accession.

#### **5. Conclusions**

Territorial cohesion covers the functional connectivity of different regions in order to efficiently exploit territorial potentials and achieve harmonious and sustainable territorial development.

This paper identifies the circumstances in the field of regional development in the Republic of Macedonia, detects the level and directions of territorial cooperation and provides an analytical review of the strategies and policies for territorial development. The last five years have not seen any major contribution of the policy for balanced regional development to changes in development indices of the eight planning regions in Macedonia. Taking into account the long-standing processes of balanced regional development, limitations of the study certainly concern the relatively short period of policy implementation. Yet, the analysis hereby confirms the role the other factors and policies have in changing disparities while significantly contributing towards

regional development, though not necessarily balanced. This opens a perspective to further research on the balanced regional development, i.e. the possibility to estimate other relevant policies for reducing disparities, as well as the integrated approach to research territorial cohesion and the most appropriate factors of influence.

The findings are mostly applicable to: creating potential synergies, as well as achieving convergence and cohesion of development at the regional level as a basic prerequisite for balanced and sustainable development.

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