

SMES DEVELOPMENT IN CROSS BORDER CO-OPERATION REGION ROMANIA - HUNGARY (CBCROHU)

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Introduction

The needs and potential for small business development in border regions differ depending on the types and characteristics of the border region - including the level of development, type of area, patterns of contact and trade across the border.

In terms of the level of development, broad types of border region range from those rural regions peripheral in national economies and in the EU, and lagging behind in their development, to more centrally-located border regions which may be experiencing, to differing degrees, problems of restructuring and development. The rural peripheral regions (typical former Objective I under the structural policies) face the most severe problems of restructuring and development of the regional economy. They tend to face multiple problems related to small business development including the need to develop new attitudes and a culture to support entrepreneurship, to effect restructuring out of traditional agricultural activities and into the development of new business start-ups, in new sectors etc. This is often in the absence of structures or regional/local intermediary bodies within an arid infrastructure of facilities and services to support the process.

While more centrally-located border regions tend to be less vulnerable and to be better-placed to take advantage of new opportunities for small business development arising from global trends and the breaking down of barriers, they can also face problems of economic restructuring. These include industrial restructuring regions, some with severe problems arising from the predominance of traditional industries in decline, loss of economic activities which are not being replaced by new activities and investment, and large size structures of firm - i.e. typical former Objective 2 regions under the EU's structural policies. In terms of challenges, these types of region also need to promote an enterprise culture to support initiative-taking and small business development, and new skills to support the development of new sectors, and new functions based on smaller scale operation and networks. This is the case of the CBCRoHu.

However, the CBCRoHu has problems related to business infrastructure and to environment (derelict sites, industrial buildings unsuited to the needs of small enterprises) as well as redundant skills and often hidden unemployment. On the other hand, this region has advantages in terms of infrastructure, communications, and closeness and access to potential EU markets, and an important industrial tradition upon which they can build.

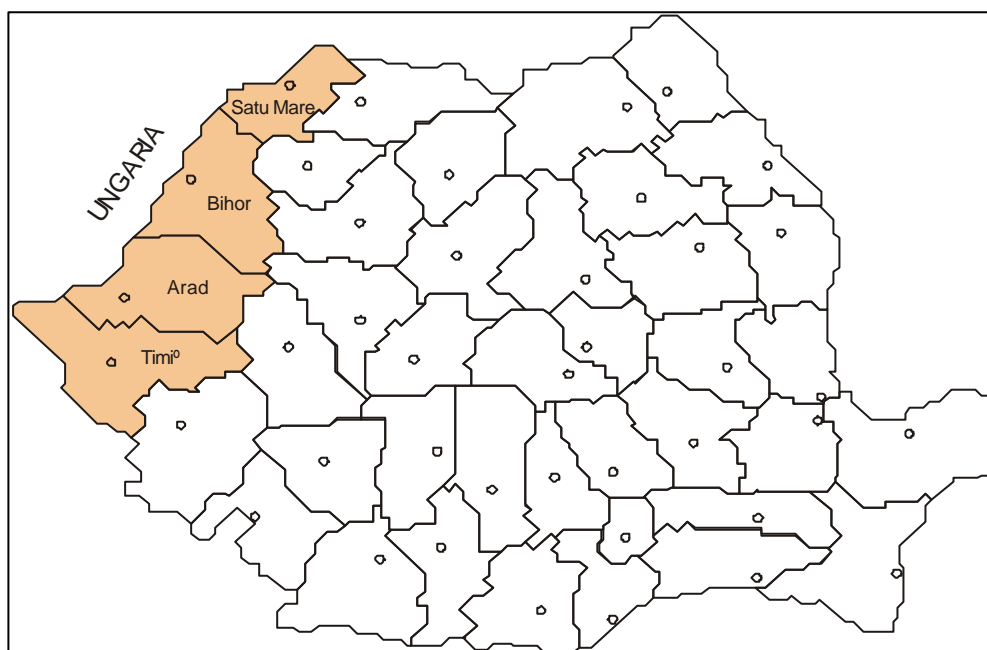
As well as differences in the typologies of border regions, which result in different patterns of needs and potential for small business development, prospects are also affected by differences in the internal characteristics of border regions. For instance, the border region may be characterised by one development pole - an urban centre - which can act as the focus for development of new businesses

and services (e.g. Research & Development (R&D), education and training, marketing and other services to businesses) and serving the rural hinterland of the cross-border area. Small business development in new fields of employment in the rural hinterland can relate to the development of new rural specialisation based on indigenous agricultural products and marketing, tourism, information technology-based services which use remote access, and new environmental services.

In our cases, the border region has four development poles (Timisoara, Arad, Oradea, Satu Mare - see Map 1) inducing a situation which may be characterised by more intense competition between the small businesses for the regional market rather than complementary co-operation with a view to building up the strength and dynamism of the small business sector and the regional economy.

The CBCRoHu faces these and more severe problems of small business development, which stem from the existence of formal barriers to trade, including customs, different administrative and regulatory regimes etc. Distortions in trade, investments, flows of labour as well as a “black economy” also arise owing to significant differences in socio-economic conditions - income, wage levels, prices - across the border¹.

Map 1: Romania-Hungary Cross Border Regions



Main Characteristics of the Cross Border Cooperation Area Romania/Hungary (CBCRoHu)

The CBCRoHu includes 4 counties (judete) with a population of 2.17 million inhabitants that represent around 10% of total Romanian population (see Table 1).

¹ In Hungary wage and price level is higher than in Romania.

Table 1: Main development indicators in CBCA, 1995

	Human Development Index	GDP/inhabitan t (\$)	Agriculture and Silviculture (% din GDP)	Industry and Construction (% of GDP)	Services (% din GDP)	Populatio n 1998 thou. Inh.	Life expectancy (years)
România	0.794	4130	21	40	39	22503	69.5
Timis	0.830	4580	18	35	47	682.4	68.7
Bihor	0.799	4400	23	38	39	624.1	67.4
Arad	0.773	3930	21	34	45	478.1	68.4
Satu Mare	0.753	3890	30	36	34	392.1	65.5

Source: Romanian Human Development, 1996, Bucuresti, România

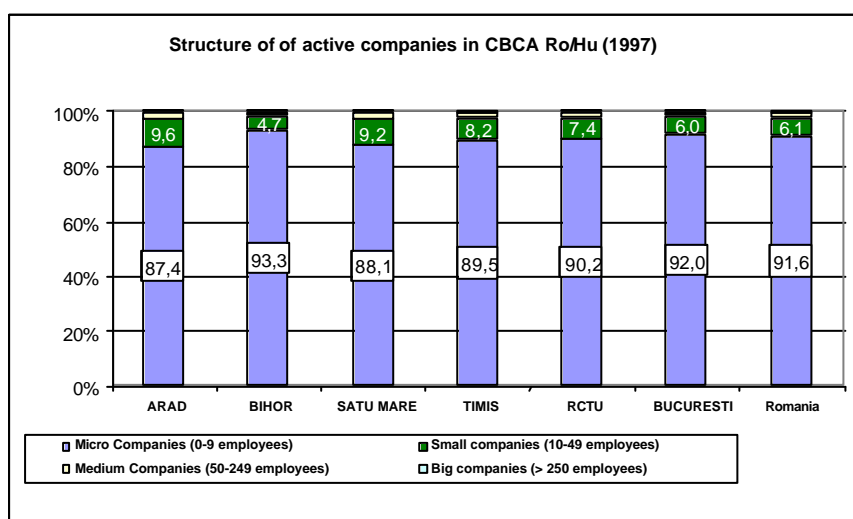
The economic development of the region is close to the national average; while two counties (Timis and Bihor) registered a GDP higher than the country average, the other two counties registered lower figures for GDP but not very far from the national average.

The structure of active² companies in the CBCRoHu is dominated by micro-companies (less than 9 employees) that account for around 90% of the total (see Figure 1). The situation is not entirely different from those registered at the national level, but differ from that existing in Bucharest.

From the point of view of registered companies, the Bihor, Satu Mare and Timis record less than 400 companies/10000 inhabitants. Of those existing, only about 70% of them are active; the remaining are in different situations such as liquidation, closure, inactivity etc. (see Figure 2). In the CBCA there were 309 companies recorded to 10,000 inhabitants, with average assets of 77.5 thousand \$/company.

Profitability registered by SMEs in the CBCA could be considered good (more than 8%), as well as the important effort for development is (20.1% in the whole region)- see figure 3.

Figure 1. Structure of active companies in CBCA Ro/Hu (1997)



² Active companies are those that submitted fiscal reports to local fiscal authorities.

Figure 2. Economic Potential of SMEs in CBCA Ro/Hu (1997)

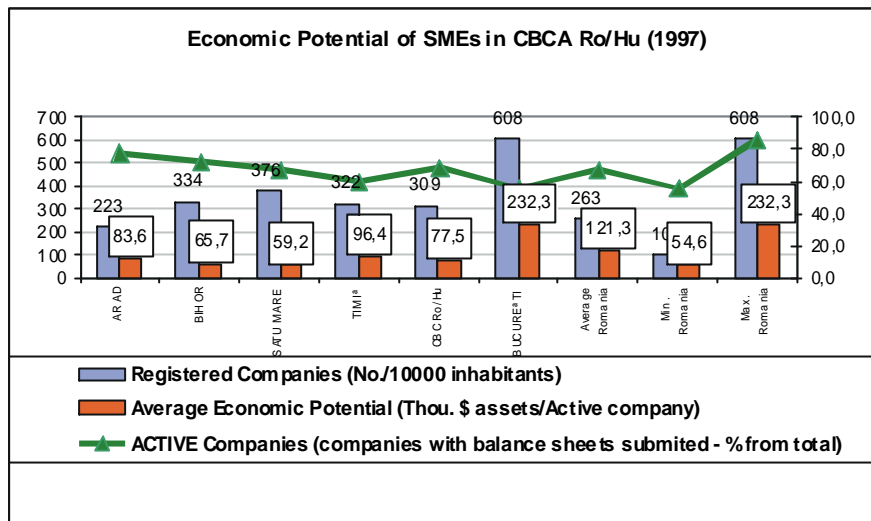
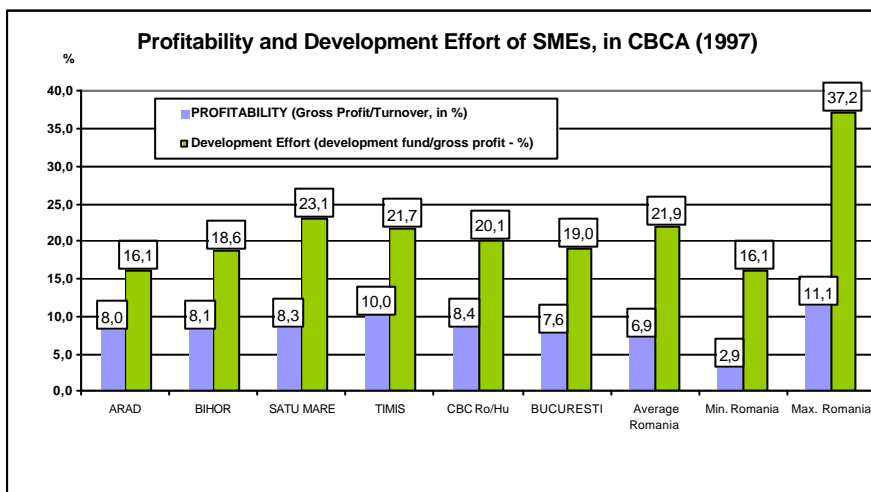
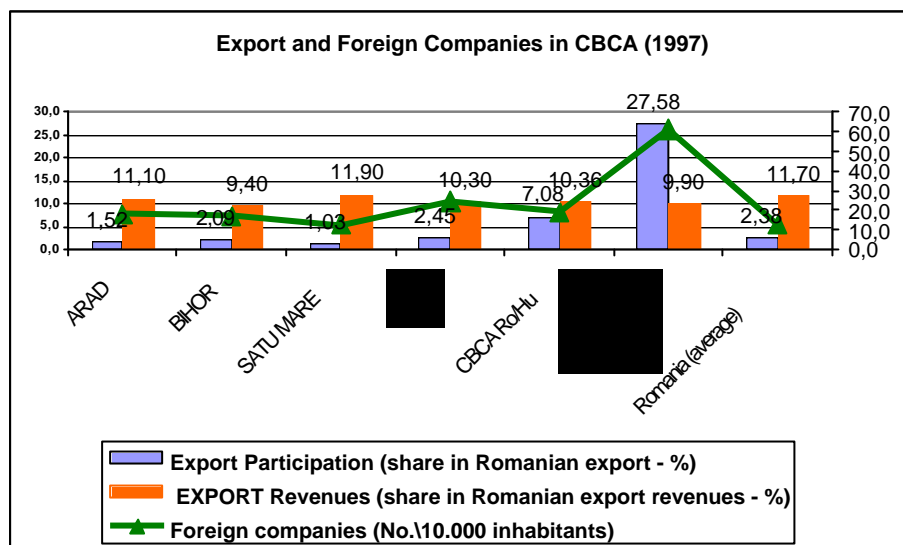


Figure 3. Profitability and Development of SMEs in CBCA (1997)



Activities oriented towards export contribute with a share representing 1-2.45% of total national exports, for each county; for CBCA export represents 7% and revenues represent 10.36% (see Figure 4).

Figure 4. Export and Foreign Companies in CBCA (1997)



Typical Problems of Small Businesses in the Cross Border Cooperation Region with Hungary (CBCRoHu)

Small businesses in the CBCRoHu face a range of difficulties or obstacles to development. Typical general problems include: lack of flows of information about markets, services, regulations and procedures; difficulties of access to finance on appropriate terms (seed, venture capital); weaknesses in internal capacity and skills; weaknesses in innovation and capacity to manage innovation; etc. In addition to these general problems, small businesses in the CBCRoHu face specific difficulties or disadvantages stemming from the existence of the border with Hungary and their peripheral location in relation to EU economies. These factors, in turn, hinder their prospects for growth and improved competitiveness.

Specific small business problems in the CBCRoHu include the following:

- a restricted market and distorted patterns of trade resulting from the operation of separate and competing commercial centres on either side of the border, rather than focusing on the cross-border region as a regional economic entity, and building up the strength of the broader regional market;
- lack of knowledge of the language, administration and competition on the other side of the border restricting cross-border operation;
- the lack of a “full circle” in terms of supply and distribution in the cross-border region and the absence of such linkages which take in the whole of the region;
- weaknesses in the physical and economic infrastructure to create a supportive environment for business development, combined with relative isolation from the centres of decision-making and markets;
- limited access to specialised technology and advanced research and development (R&D) services and facilities for small businesses in the form of technology centres, research institutes, applied R&D in the region, as well as weaknesses in the skills base and the appropriate training to support economic development;
- different administrative structures between the constituent parts of the cross-border region which contributes towards mismatches and “absurdities” in the respective business environments and distortions in investments, flows of resources including labour and trade (e.g. different forms and levels of taxes, social security systems, postal and telecommunications services and cost structures, wages and prices etc.). This problem is more complex because of differences in macro-

economic conditions (reflected in wage levels, prices, exchange rates etc.); these factors, in turn, produce conditions which bust the informal economy (e.g. smuggling) and further distort and disadvantage legitimate business;

- lack of opportunities for the contact and inter-action necessary to generate conditions for viable and self-sustaining regional economies in border regions. This includes in particular mutual knowledge, amongst businesses and intermediary structures, of the opportunities for co-operation on the other side of the border, the development of networks of co-operation, and the cross-border institutional structures which can provide the CBCRoHu.

Conclusions

Small business development is a policy field in its own right, involving a wide range of support actions including: information, advice, training, financial assistance, and physical facilities (to mention as well business incubators, exhibition space, R&D facilities), covering both general services available to all businesses, and specialist services offered more selectively to specific categories of small business (e.g. growth oriented businesses, businesses operating in specific sectors etc.).

In cross border regions, this area of policy should be concerned with closing the “half circle” to create a “full circle” in terms of links between suppliers and producers, and developing the strength and capacity of small businesses to enter new markets, thus contributing to the growth and development and prosperity of the region. The development of business and trade relationships between suppliers and producers across the border creates new opportunities for cross-border regions.

The development of networks or groupings of small businesses in CBCRU would enable small businesses to build up capacity and strength through:

- the development of more divers economies (economies of scope) to create a broader range of products, enhance quality and improve capacity of small businesses to respond quickly to changing demands of the market and in this way to develop flexible specialization;
- the realization of economies of scale through cost sharing and the reduction of unit costs, and thus improved competitiveness; and
- benefiting from comparative costs on both sides of the border.

The ability to realize both economies of scope and economies of scale are the underlying rationale for cross-border business co-operation.

The main actions in support of small business development in the CBCRoHu could include the followings:

- ◇ preparatory and low intensity actions oriented to establishing the framework, identifying the scope for co-operation, creating opportunities for contact between intermediary structures and businesses and generally encouraging more co-operation.
 - * Specific types of action could include: promotion and animation activities including familiarization visits, identifying partners, businesses forums, workshops, conferences, fairs, etc., scooping studies and research in order to identify problems and potential for co-operation and to inform the development of activities in support of cross-border business development. These types of contacts create conditions favourable to the development of a more permanent exchange of information and experiences and informal and formal networks of businesses and intermediary bodies;
- ◇ special/thematic seminars, and meetings together with the former set of actions can help create a good socio-cultural basis, leading to successful economic development;

- ◇ information and advice services on cross-border trading opportunities, business and investment opportunities and the development of joint ventures including services based on information and communication technologies - databases, Internet, telemarketing etc. - as well as instruments such as joint business directories and specific business promotion events in Romania as well as in Hungary, including lobbying and representation missions on behalf of businesses amongst investors and potential markets beyond the region;
- ◇ cross-border business training in sectors of regional specialisation are of particular importance for improving the capacities of small businesses in the cross-border region (e.g. marketing, application of new technologies); all these should be linked with other services (e.g. promotion of joint ventures) and facilities demonstration centres etc.);
- ◇ specialist common services in the sphere of markets and marketing, usually offered to groups or networks of small businesses operating in complementary and non-competing business sectors;
 - * these can include: the development of joint marketing services linked with quality labelling, joint purchasing, joint selling and distribution;
- ◇ joint facilities and services to promote new and improved product development, enhanced production processes, application of new technologies in production processes and management, and improved testing and quality control. These can be established through the development of advanced facilities and services in the region (e.g. R&D, technology centres, Business Innovation Centres etc.);
- ◇ regional investment funds including start-up, seed venture capital facilities to help businesses (e.g. cross-border joint ventures, regional business opportunities) and overcome difficulties of access to capital.

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