



## **PERFORMANCES OF THE POLICY OF INDUSTRIAL COMPETITIVENESS IN ROMANIA, IN THE EUROPEAN CONTEXT**

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**Abstract<sup>15</sup>:** This communication aims briefly describing Romanian industry and corresponding Government policy about in this vicinity of these two decades. Or, this is a real mixture between old and obsolete aspects and new imperatives of restructuring. The last's basing concepts were really unknown around just two decades earlier. There was (and probably still is) to talk about long inertia and reticence about settling an industrial policy, but either foreign investors' support was rather missing in such respect. Besides, there is an economic crisis all over unexpected to currently face. Romanian Government looks hardworking, but not always successfully performing face to such a complex of facts. It might rather be just one part of the issue.

*Keywords: industry, industrial restructuring; competitiveness policy, research-development-innovation (R&D&I), small and medium size (SMS) firms, environment policy, business environment; economic crisis.*

*JEL Classification: L50,L60, M00, R00*

### **INTRODUCTION: An overview on the Romanian industry update**

Recall that in the year 1989 end (see the Romanian revolution) the Romanian industry was basically energy intensive and unsustainable in resource matter. Then, restructuring was coming, but it stayed unsubstantial both in general terms and as depending on foreign investors' option for a similar general situation for the Romanian industry. Also currently, Romania has a mainly manufacture-based industry, see: its high labour costs industries -- like the ones of textiles, ready-made

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<sup>15</sup> This paper belongs to either the current research theme of the Institute of Economic Forecasting of the Romanian Academy of Sciences on the year 2011 – "Role of innovative clusters in transferring knowledge" -- , as publishing results, or to an extra research project called " Innovative clusters' strengthening and comparative developemnt of industries – as tools of sustained industrial policy for the globalizing era".



clothes, wires, fibers and lather; heavy equipment industries -- like the ones of wires and fibers again, plus of milling and cement; energy-intensive industries -- like rather all of the above. The comprehensive result of all these would be for an overall note of half skilled labour and still reduced level of research-development-innovation (R&D&I) factor for this industry<sup>16</sup>.

Another significant aspect to be considered is that the whole Romanian industry bases on small and medium size (SMS) firms as for 99% -- whether only the number of firms is here considered as criterion. And this aspect was decisive for absolutely and relatively consolidating this zone for either its employment and activity turnover related to individual firms, as the average level.

## **PAPER CONTENT**

### **I. Current developments**

Despite these aspects, a real structural changing is to be considered. It stays less obvious sometimes due to the higher pace of similar processes within the whole EU area<sup>17</sup>. As one of the dynamic factors of this industry, top technologies were imposed together with a new industrial sector like radio-tv industry, but also already dominant industries get here involved as well, see automotives, wires and cables industries etc. In a similar way, high knowledge and education dominant industries, like communications and software were built. And such structural changings tend at least to narrow the old-tradition Romania's international specializing<sup>18</sup>. Besides these above, there is to be noticed that the last years economic crisis rather helped these structural changes in process. Plus, it is about a "top-crisis" stage about April 2011, that so is supposed to have already been overpassed<sup>19</sup>.

See also two more relevant results related to all last years evolving, including the same current economic crisis. Firstly, the crisis stroke about (-) 13% of the manufacture industry, and secondly the corresponding competitiveness was concomitantly suffering from the +80% increasing exchange rate of the RoN currency throughout the last decade, as compared to the corresponding phenomenon on its EU27 average for only +21%. Actually for Romania, the unit labour cost was so becoming +326% higher and the competitiveness evaluating number at 58 percentage points under the European average.

Then, the crisis brought credit restrictions for all firms as nearly equally, given the basic structure of SMS firms' domination. Later on, when crisis seemed to be over a similar banking mentality of keeping these firms from accessing credit resources was persisting -- actually, State sector's needs and the ones of other related zones were

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<sup>16</sup> The Bucharest Summit: Analysing Romania's future economic potential

<sup>17</sup> European Competitiveness Report 2011

<sup>18</sup> The Bucharest Summit: Analysing Romania's future economic potential

<sup>19</sup> European Commission: Industrial competitiveness as the solution for economic recovery. Press communiqué. Brussels, 14 October, 2011



prioring in context. Besides, the same State was originating the delaying in VAT restitution to the private business sector. Finally, this is the latest that suffered from a significant number of bankruptcies during at least 2009 and 2010. However, some progress was concomitantly performed on the arrears' liquidation<sup>20</sup>.

## **II. The research-development and innovation (R&D&I) factor**

Innovation, as in particular for Romania, reaches a rather contradictory picture. The industry's demand for knowledge stays low and associates to a weak innovation culture of the domestic area and there is to talk about rather low specific R&D ratios in the costs of firms of all sizes. The domestic business environment benefits from anti-risk type services at equally low levels. Plus, it is found rather ignoring newly available alternative financing sources, so yet dependent on traditional government resources. These aspects play for a specific innovation factor that stays under the European average, at the same. But, however, its "catching-up" dynamic also stays to be considered, and not ignored<sup>21</sup>.

The research-development (R&D) factor, in its turn, keeps some aspects under focus. It especially regards the small and medium size (SMS) enterprises sector, meaning technologic transfers and corresponding cost reduction that these firms benefit from in context<sup>22</sup>.

Another specific of R&D relates to labour employed in. The last here cannot account for its low skilled part in any way, but high technical domains related diplomas also face problems; the same for diplomas of sciences, and mathematics that stay far from a knowledge really turned into competitive advantage of firms. Or, there is a basically institutional cause to talk about in the education system. The last still suffers at least from repeated and stressful reorganizations and losses in teaching personnel. That is why the government drew and succeeded to enact the new Law of National Education in the 2010 year end in order to reform this system.

As for policy elaborating and managing about the whole research-development-innovation (R&D&I) area, in the first place they prove dominated by direct type tools, whereas the alternative indirect tools (e.g. specific tax reductions) yet prove unsubstantial and low efficiency. But, let us just enumerate some more of these latter, as new:

- / the R&D&I plan for the 2007-2013 interval, as for the firms' use;
- / budget allowances for investments in innovation that can go up to 120% of private amounts invested, as in detail;
- / fast depreciation of R&D use equipments;

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<sup>20</sup> Commission Staff Working Document – European Economic Forecast Spring 2011 European Competitiveness Report 2011

<sup>21</sup> The Bucharest Summit: Analysing Romania's future economic potential

<sup>22</sup> Communication from the Commission Industrial Policy –Reforming Competitiveness



/ the law of "Public-Private Partnership" that was enacted in late 2010 is actually as comprehensive as regarding all kinds of investments, including the ones in R&D.

And besides these above, the economic crisis year 2009 was equally bringing in reductions of public spending all over, here including in R&D&I. It was -25%, as compared to the previous 2008 and -50%, as compared to the previously planned level of. A situation that led to the "Memorandum of Understanding (MoU)" of June 2009, basing on the agreement with the IMF's provisions<sup>23</sup>.

### **III. The environmental aspect and its specific policy**

Environmental performances stay also low for Romania. The country keeps the third place in Europe for the energy intensiveness of its industry and industrial offas per capita as high as double for the European average number, plus its ecological goods' exports also stay much under the European average level<sup>24</sup>.

The environment policy of Romania is mainly funded by the operational programme (OP) called "Environment" that disposes of EUR 5.6 billion, of which the European contribution to be developed within the 2007-2013 interval is as high as EUR 4.5 billion. Besides this OP, another important one is called "Economic Competitiveness" and specifically serves industrial development for objectives as efficiency, cost reduction and resource renewal by alternative ones<sup>25</sup>.

As for institutional aspects, several norms and directives are there to be mentioned, all included in the "road file" of the "Ecological Technologies Applied Plan(ETAP)" for the 2010-2013 interval. This multi-annual programme includes, among other provisions, some specific goods and services to be acquired up to 2011 end. Plus, in April 2010 an inter-ministry working group for a strategy of turning the automotive technology into the electric base was formed. Unfortunately, the last two initiatives still expect their concreteness of facts<sup>26</sup>.

The "Increase of Economic Competitiveness" OP also regards the ecological part of the competitiveness process, i.e. carbon-dioxide emissions, and so, given the scarce home resources in such a concern, EU Structural Funds are especially here expected as for decisive contribution.

### **IV. A policy favouring competitiveness and the business environment**

From the environment itself back to the business environment, the last equally suffers from managerial and administrative incapacities of the central and also local authorities, from complicated and contradictory rules, from the high amounts of

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<sup>23</sup> European Commission: Industrial competitiveness as the solution for economic recovery. Press communiqué. Brussels, 14 October, 2011

<sup>24</sup> The Bucharest Summit: Analysing Romania's future economic potential

<sup>25</sup> European Competitiveness Report 2011

<sup>26</sup> European Commission: Industrial competitiveness as the solution for economic recovery. Press communiqué. Brussels, 14 October, 2011



permissions all over required and from a number as high as 113 of taxes and other obligations to be paid. Romania so stays on the last places for operationality performance due to such causes<sup>27</sup>.

Some of actions here taken for competitiveness, business environment and others were taken over by the "Memorandum of Understanding (MoU)", attached to the Agreement with the IMF. These were:

- Law for public authorities organizing, enacted in 2009 and including in the one of its parts consequences on business environment;
- Law of public employees' retribution, that was enacted in 2009-2010 and targeting the reduction of public spending;
- additional EU-IMF Agreement of 2011 regarding some structural reforms for the energy's and transports' markets. Here, some provisions on reinforcing corporative governance of State owned companies, arrears' reduction and a list of measures ending by private management for some of State owned companies might be significant;
- strategies drawn for privatizing some companies in the domains of energy (4 companies) and extraction (1 company);
- reconstruction of the public administration, that is conveyed to the World Bank for one of its programme in the region;
- some new procedures and amendments to other two types of activity – these are land accounting and bankruptcy of firms<sup>28</sup>.

Two newly founded Agencies were founded to make the government's actions more dynamic. These are National Council for Competitiveness and Department of "Business Environment", working as subordinated to the Ministry of Economy, Trade and Business Environment (METBE).

Up to the moment of this report, this last department has already drawn the "Plan for Improving the Business Environment", that comprises a set of measures to help the private investors. Let us note that some measures remain in the conceptual area, whereas others are already detailed and described in their concreteness, here including for consulting services providing for innovation and for supporting the young investors' activity.

Moreover, a "Strategy for easing legal and administrative condition of business environment" was adopted in Romania in 2008, as operational for the 2008-2013 interval. There is to be here considered at least a reduction of the number of fiscal duties for firms, and this was concretely for reduction the number of 491 fiscal duties – at the end of 2009 – to 237 – see the present.

Another important measure taken consists in the unification of financial Statements for social contributions up to the early 2011. Thirdly, a double law (code)

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<sup>27</sup> The Bucharest Summit: Analysing Romania's future economic potential

<sup>28</sup> Communication from the Commission Industrial Policy –Reforming Competitiveness



project was drawn, see the (a) Administrative Code and (b) Code for the Administrative Procedure.

Government equally chosen to act in favour of improving Internet-based services' quality during the 2009-2015 interval through the so called "Broadband" strategy for communications throughout Romania. Unfortunately, weak progress has been performed so far on this programme since 2009, when it was started, here including an eRomania portail in way to be shaped.

Besides, in March 2011 the ,Ghiseul.ro' site was achieved in the framework of the programme called "the unique guishée" for facilitating taxes' and the other duties' payment by firms – it is true that this is also a programme in way in the sense that only part of local public administrations are already able to access this electronic facility.

Investing in infrastructure remains either as a point of high political ambitions, or as a continuous dissapointment for achievements that are still low level.

The amounts of permissions for investors were more highly reduced in this domain, as compared to others – the impact was though not enough resented, especially for small and medium size firms.

Then, more contacts between entrepreneurs and local public authorities are expected to clarify the administrative burden problems on firms' side. The investment amounts' level in infrastructure is crucially significant for all domestic industries' competitiveness and for a criterium of foreign investments' attraction into the country area.

More actions taken in favour of business environment and economic recovery were coming directly from the financing zone. Some of them were announced since 2009, but their implementing being so delayed afterwards effects were running out – e.g. some tax exemptings on reinvested profit.

On the other hand, in 2009 a Guaranteeing Fund for credits to small and medium size firms was funded (capitalized) and founded. Then, the above mentioned "Increase of Economic Comepetitiveness" OP came to support new investments, these firms' entering international markets and international consulting standards offered. The "Regional Operational Programme" here came with its support for regional business infrastructure building. Ultimately, "Administrative Capacity Development" OP helps drawing a consistent programme for the business environment's improving at least through the "Act regarding Small Business" drawing<sup>29</sup>.

Public purchasings were also considered as a chapter of activities for supporting business environment the way that their specific law had to be also

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<sup>29</sup> "Promoting transnational clusters to boost competitiveness and foreign direct investments ", a communication reported together with Dr. Carmen Beatrice Pauna and Nona Chilian of the IEF for being presented to the ,Warsaw Regional Forum' named "Functional regions – towards a new paradigm of territorial and cohesion policies", 19-22 October, 2011. Host Institution: ,Institute of Geography' of the Polish Academy of Sciences. This communication is currently in way to being published by this host Institution.



corrected and adapted to at least two lines of purposes: procedure flexibilizing and easing the access to European Funds. More than 55% of the total amount of public purchasings, meaning about EUR 4 billion were re-directed to small and medium size firms. Unfortunately, similar initiatives regarding innovation and environment issues proven not so simply to approach<sup>30</sup>. It proven not so simple approaching the need for fiscal consolidation – the results' space of effects reduced, plus these were really costly. Government here continuously insists for increasing access to European funds and liquidating arrears of small firms.

## **CONCLUSIONS**

The communist past of a country like Romania keeps on obsessive, here including for the story of industry. There was once in the late 19th century when authors argued that Romania was "condemned" to base on agriculture and "feed" neighbour countries by and later on the communist regime expressed its hard retort by a "socialist" industrialization in an equally autarchical concept.

The result was the Romania's industrial and economic structure of late 1989. Then, in this third phase industry has got rather a topic of profound doubts and controversial issues, as a research, as business, but also as a political issue, and not only in Romania or in post-communist countries, i.e. does future belong to industry (like it was thought some time in the past) ?

And, even if yes, there is not only domestic resources or government to play for, but the international factor becomes much stronger, technologies are much different than before and the environmental aspect won't miss any business strategy of this century on. Or, this is still called industry, but means a mainly different issue.

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