

STUDY ON THE BUSINESS ENVIRONMENT IN ROMANIA IN THE CONTEXT OF THE INTEGRATION IN THE E.U. (ANALYSED PERIOD 2008-2009)

Nan Anca Petruța

Babeș-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: anca_nann@yahoo.com, Phone 0744582312

Borza Georgiana

Babeș-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: georgiana.borza@gmail.com, Phone 0745661655

In the context of the alignment with the European standards, the business environment in Romania is faced with great challenges, being subdued to constant pressure, resulted both from the economic and the legislative registers.

The present paper proposes itself to show how attractive our country is from the point of view of the business environment, the investors' confidence in this domain, as well as the way in which this is affected by the world crisis.

Key words: business environment, investors' confidence, world crisis

JEL Classification: G₀₁, O₁₆

1. Introduction

Romania is in the top of the destinations for foreign investments coming off third in the region after Poland and Czech, in what concerns the number of workplaces created due to the achievement of the investment projects, according to a research carried out by the advisory and audit company Ernst & Young.

On a European level, our country takes the fifth position in the top of the most attractive destinations for investments, so that 10% of the foreign major companies questioned by E&Y take into consideration Romania for the extension of their activity. The most important competitors are Poland, for which 18% of the investors opt, Germany, 16%, Russia, 12%, and France, 11%.

According to another research Ernst & Young published in April 2008, Romania occupied the first position in the classification of attractiveness for investors in the region of South-East Europe, followed by Turkey. "In 2007 Romania had a score of 58%, but in 2008 its percentage reduced to 52%. Unlike Romania, Turkey improved its performance, gaining a qualifier of 50%, this tendency favouring the Turkish state", declared Fabrice Reynaud, senior manager of Ernst & Young²²⁴. The purpose of this research is the measurement of the foreign investors' perceptions regarding the activity of South-East Europe for direct foreign investments, in order to compare these perceptions with the real situation of the investments and to reflect the opportunities for the states in the region.

The fluctuations of the Romanian economy and the impact of various destabilizing factors make an emerging economy as that of Romania feel the effects of the international fluctuations, dictated by the most powerful men in the world, that is why the research of these phenomena experienced on an international level is of real interest.

2. Romania among the first 50 countries with favourable climate for the business environment

According to the annual rapport carried out by the World Bank "Doing Business 2009", which analyses the favourable climate for the development of new businesses in 181 countries on the basis of 10 indicators, Romania occupies the 47th place in the classification of the states that have

224 "Rămânem în topul destinațiilor pentru investiții străine", www.wall-street.ro, 2009.

the most favourable business environment. It measures how easy it is to start on a business or to end it, to pay taxes, to recruit people, or the way in which the state protects the investors.

Our country has been surpassed by countries like the Arabian Emirates (46), Bulgaria (45), Armenia (44), Hungary (41), or Slovakia (36). Still, Romania occupies a very good place in the classification regarding the initiation of a business (place 26), the procurement of a credit (place 12), and the efficiency with which the commercial litigation is treated (place 31). Also, a very good place is occupied due to the protection of investors, Romania thus taking the 36th position, and the external commerce, too (place 40).

But Romania's most serious problem is the tax payment system. Thus, it takes 202 hours to pay the 113 taxes imposed to start on an undertaking. This situates Romania on place 146, after countries like Brazil, Egypt or Albania. On the first position in what concerns the number of taxes imposed by the state is Maldives, followed by Qatar, where only one tax is paid, and Sweden, with only two taxes.

The first place in the classification of the states with the most favourable business environment is occupied by Singapore, because of its very friendly laws regarding bankruptcy and work force.

On the second place in the general classification is New Zealand where it one takes the fewest time to start a business. The following place is occupied by the United States which presents extraordinary facilities in what concerns the work force: to employ and to dismiss an employee being extremely easy. Also, in the USA, it is very easy to obtain a construction license, which is released in only 40 days.

The classification carried out by BM and IFC relies on the time and cost indicators for the observance of the public administration requirements with regard to the initiation of a business, the functioning, the commercial activity, and the closing of the business. This classification does not take into consideration variables like the macroeconomic politics, or the quality of the infrastructure, the volatility of the currency, the investor's perception, or the crime rate.

3. The business environment in the conditions of the crisis

World financial crisis has brought about fundamental changes in the native business environment, in the managers' and entrepreneurs' mentality, and it considerably reduced the investors' aversion at risk.

Specialists recommend that in whatever investment initiated in this period there has to be bared in mind the trend of the microeconomic indicators (consumer price, inflation, unemployment), in such a way that the investment be optimized according to the realities of the market. Before the beginning of the investment, it is recommended that one make a detailed market study, with the segmentation of the target and the analysis of the target-public's buying force.

According to the information declared by the Ionuț Maftei, senior consultant within Ensign Management Consulting for Wall-Street, managers are much more realistic. There are a lot to learn from the crisis periods, as for example: inexperienced situations faced by the relatively new companies, which have exclusively known periods of growth since their establishment, the uncertainty of the future steps in the life of the company; then, the lack of liquidity, which up to now was within reach, the deterioration of some commercial relations that once seemed permanent. There are new lessons, which managers will seize on, but, at the same time, they also represent steps forward for economy.

The effects of the financial and economic crisis will be strongly felt by our country, but these are estimated to be smaller than in the case of other countries because:

- Romania has one of the smallest shares of export in the GDP, which means a more reduced effect of the contraction of external markets; the export of goods and services is in Romania around 30% as compared to 41% in Poland, 63% in Bulgaria, 80% in Czech and Hungary.
- Romania has a share of non-governmental credit in the GDP of around 40%, which is a lot under the average from other European countries.

- Romania has one of the most reduced rates of dependence of energetic imports.
- Romania has an important economic sector, besides markets (agriculture, constructions with self-administration, etc).

4. Investors do not trust anymore the business environment

Confidence in the business environment fell in 2008 world wide, on the background of the world economic crisis which led the majority of the financial companies to ask the governments for help so as to be able to maintain themselves on the waterline, shows a research worked out by Edelman Trust Barometer.

The greatest losses of confidence were registered in Ireland, where 83% of the respondents said that they had lost their confidence in companies. In Japan, the number of those who gave the same answer was of 79%, while in the US, this was of 77%.

The economic problems that the business environment encounters determine the entrepreneurs to look on the investment plans with a sceptical eye. The index of confidence in the business environment has descended drastically, to -8 points from the previous level of 80 points, as it is shown by another survey carried out by the Oesterreichische Kontrollbank (OeKB). Romania is on the fifth position in the region regarding the confidence in the business environment, after the investments have visibly diminished in the area, the most seriously affected being Ukraine and Russia, where the index has descended to -10. Nonetheless, Bulgaria, Czech and Romania registered the lowest decline of investments, the most affected sectors being the real and the industrial ones.

Also, the region of central and East Europe deals with the same problem when it comes to the investors' confidence, index that has decreased as far back as winter, and almost half of the foreign companies which operate in the area believe that the next six months the situation will get worse, according to the OeKB survey.

The situation seems more severe in Ukraine, which three months ago had one of the best scores. This happened because of the political problems which had postponed the fight against the crisis and had frozen a rescue package from the International Monetary Fund (IMF).²²⁵

5. Year 2008 – internal retrospection

The evolution of the main sectors of the economy in 2008

Tabel no 1: The evolution of the Gross Domestic Product (GIP) in some member states of the EU

GDP	YEAR 2008
Romania	7.1
Belgium	1.2
Germany	1.3
Estonia	-3.6
Spain	1.2
Lithuania	3.1
Holland	2.0
Polond	5.4
Sweden	-0.2
UE(27)	0.9

Source: EUROSTAT

225 "Investitorii nu mai au încredere în mediul de afaceri românesc", www.newschannel.ro, March 2009.

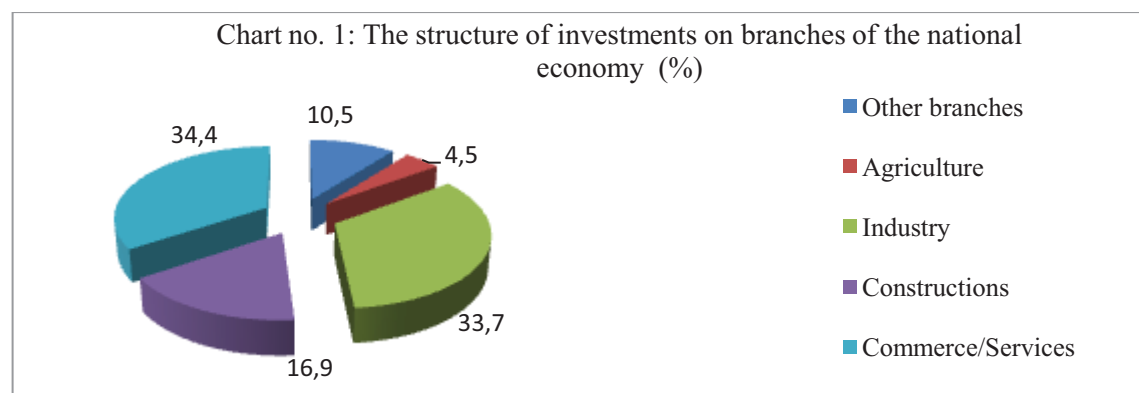
The gross domestic product for 2008 was 503,958.7 million lei current prices, on the increase in real terms with 7.1% comparatively with 2007. For the formation of GDP, the activities from services and constructions contributed positively, the two sectors having together a share of 60% in the GDP, and the volume of activity from the sector of constructions increased with 26.1% with regard to the year 2007. Agriculture, forestry, and pisciculture increased their activity volume with 21.4%. In 2008, the volume of net taxes on product increased with 5.8% as compared to year 2007. Thus, the gross value added, which includes the results from agriculture, constructions and services has registered a growth of 1.3%.²²⁶ The analysis of the factors that have contributed to the growth of 7.1% of the GDP underlines the dominant contribution of services (+2.6%) and constructions (+2.3%). Industry has contributed with only 0.3%, although it has a share of 22.9% in the GDP.

The performance of the Romanian economy was not surpassed by any of the member states of the European Union, being followed by Poland, which has registered a growth of 5.4% of the GDP.

The structure of direct foreign investments in 2008

The value of direct foreign investments' flows for the year 2008 were of 9,024 million euros²²⁷, increasing with 24.5% as compared to year 2007, covering 53.5% from the deficit of current account, from which with contribution to capital 2,767 million euros, reinvested profits 1,756 million euros and other capitals 4,501 million euros.

The structure of the investments on branches of the national economy



Source: INS, "Evoluția economico-socială a României în anul 2008", March 2009

As compared to the last year, there have been registered increases in the agriculture branch (+3%), in constructions (+2.9%), in commerce and services (+0.4%), as well as decreases in industry (-5.3%) and in other branches (-1%).

The structure of imports and exports

Romania's export of goods increased in 2008 with 13.8% by comparison with 2007, while exports augmented with 9.4%, evolution that deepened the commercial deficit with only 3.4%, to 22,52 billion euros, show the data published by the National Institute of Statistics (NIS).

The commercial deficit, computed FOB-CIF in the year 2008 was of 82,654 billion lei (22,52 billion euros), with 9,914 billion lei (747,8 million euros) bigger than in 2007.

²²⁶ INS, Buletin statistic lunar 1/2009.

²²⁷ The Romanian National Bank, provisory data.

The value of the intracommunity exchange of goods in 2008 was of 86,946 billion euros (23,657 billion euros) at sent items and of 142,448 billion lei (38,734 billion euros) at received items, representing 70.5% of total exports and 69.1% of total imports.

The difference between the dynamics calculated based on the values expressed in lei and the one calculated based on the values expressed in euros was determined by the depreciation of the national currency in the months January-December 2008, with values that are situated in the interval of 8% - 14.2%, as compared to the corresponding months of the year 2007, shows the NIS press release.

In 2008, the exports to the countries out of the European Union (EU) had the fastest rhythm of growth, of 20.2%, that is up to almost 9,96 billion euros, while the delivery of goods to the other 26 community states increased with 11.2%, up to almost 23,66 billion euros.

Last year too, imports from non-member states of the EU grew with 18.1%, up to 17,4 billion euros, and the import of goods from the EU grew with 5.9%, up to 38,73 billion euros²²⁸.

6. Year 2009 – a new challenge!

In the first part of the year 2009, the tendency of contraction of the economic activity will aggravate, as a consequence of the world crisis.

Even so, the Romanian Agency for Foreign Investments (RAFI) sustains that Romania is still attractive, especially in what concerns sectors like auto industry, energy, IT and infrastructure. The signals received from the investors are quite good. “The majority of investors with whom the Romanian Agency for Foreign Investments hold discussions from the beginning of the year with regard to the implementation of projects in Romania did not lose their interest in the offer of our country. Starting with January 2009, RAFI monitors 12 projects of investments amounting to 719 million EUR (3,015 new workplaces), so that we are entitled to consider that this year, too, the direct foreign investments (DFI) will not avoid Romania, which will preserve a top position in the regional classification per countries depending on the DFI attracted value”, declared Sorin Vasilescu, director of RAFI, for the “Gândul” magazine. He specified that, from the signals received by now from the investors, Romania’s agreement with IMF did not change too much their initial plans.

In January 2009, the flux of direct foreign investments attracted by Romania registered the value of 912 million euros, on the increase with 51.2% comparatively with the similar period of 2008 (603 million euros).

To be mentioned that in January 2009 the deficit of the current account was financed entirely by the DFI, the highest percentage deriving from participations to capital, respectively 49.6%. In what concerns the investors’ nationality, who publicly announced that they want to come in Romania, approximately 65% of them are from member states of the EU, 15% from the rest of Europe, the difference being covered by the USA and Asia. While Romania attracted over nine billion euros last year in direct foreign investments, Hungary attracted only 500 million euros (to which it is added the Mercedes investment), and Bulgaria benefited from the DFI to a value of about 5,4 billion euros²²⁹.

Among the advantages of Romania, we recall:

- Access to the EU market (500 million consumers) and to second biggest market from East and central Europe (after Poland).
- Sustained economic growth in the last years (over 6% on average).
- Competitive taxation (unique quotation of 16%).
- Relatively well qualified work force at low costs.

228“Exporturile României au crescut în 2008 cu 13,8%, iar importurile cu 9,4%”, www.bloombiz.ro, February 2009.

229 “În ciuda crizei, România bate Bulgaria și Ungaria la investiții străine, Gândul Magazine, April 2009.

Estimations on the external environment

The new projection emphasizes the decline of the global economy. International production and commerce strongly reduce their paces, entering the negative zone.

The investors' confidence suffered a major decline. Production decreases in numerous advanced economies, also amplified by the internal demand's decline, which limits itself more than it was previously anticipated. The escalation of the global financial and economic crisis, in the last months of the year 2008, raised the incertitude of the growth perspectives in the advanced economies, the same effects existing also in the emergent countries²³⁰.

It is considered that the economic situation will get worse in 2009, decreases being estimated for the majority of the member states and a contraction of the economic activity with 1.9% of the GDP in the euro zone. Romania's main commercial partners will reduce their GDP in 2009: Italy with 2%, Germany with 2.3%, France with 1.8%.

7. Conclusions

The Romanian economy cannot be isolated from the world one, on the contrary, its influences will be greater and greater. The effects of the global crisis are hardly at the beginning and 2009 will be the year when they will be more strikingly visible.

In Europe there are strong inflationary pressures and, as 70% of Romania's commercial exchanges are with the EU, it is natural that these be also felt by the Romanian economy.

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