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COMPETITIVENESS OF THE ROMANIAN ECONOMY

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Abstract: Romania is far from the last stage of the economic development, the one based on innovation, it is still important to analyse the germs of such an economy. The studies carried out confirm the high importance of the research-development activity which leads to innovation, as opposed to the capital accumulation or the workforce. The economic science show that a sustainable growth cannot be accomplished only through investments and by providing the stability of the macroeconomic environment, if these are not doubled by the technical progress, which amplifies the value of the capital and of the workforce.

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1. Introduction

The competitiveness of an economy depends on its development stage, being evaluated according to its primary sources (institutions, infrastructure, macroeconomic stability, health and primary education), and to the ones which allow the growth of the efficiency (higher education, the efficiency of the markets and the level of technology), as well as its innovation capacity.

2. Materials and methods

Competitiveness on a microeconomic level is usually evaluated through indicators mix. One of the well known instruments of evaluation/supervision of competitiveness is the one used by the World Economic Forum, which is related to Porter's theory. The Organisation for Economic Cooperation and Development proposes another set of evaluation indicators for the international competitiveness, elaborating a special model for this subject - INTERLINK [2]. Taking into account the complexity of the concept competitiveness one cannot talk about a uniform evaluation methodology for competitiveness..

The competitiveness of the countries was observed up to 2005 by WEF (World Economic Forum) with the help of two indices – GCI (Growth Competitiveness Index) and M/BCI Micro/Business Competitiveness Index). Although it continues to observe the tow competitiveness indices, the WEF Report 2006/2007 presents the results of the evaluations referring to a new methodology[4], which contains a complexity of the factors on which competitiveness relies under the current circumstances, referring to the productivity. As compared to the former evaluation one also takes into consideration the factor labour efficiency, the flexibility of the labour market, this being considered highly important in the Lisbon Strategy.

The global competitiveness factors are divided into nine groups [5].Although these competitiveness factors are common, one starts from the idea that their importance is not the same in every countries, in a certain period, as a consequence of the different stages of development. In consequence, the value of the factors in the final result differs from one country to another, from one group of countries to another at a given moment. In the WEF Report there were identified three stages[3] of the countries, according to the contribution of the factors to productivity, as it follows:

1st stage: Factor-driven competitiveness – *factor-driven* (unqualified workforce or less qualified workforce; natural resources). The economy is competitive especially due to the lower prices, but the products are less complex. Some basic, essential conditions are required at the same time (institutions, infrastructure, macroeconomy, health and basic education).

2nd stage: Efficiency driven competitiveness – *efficiency-driven* (more efficient productivity, better quality products). The circumstances of the competitiveness rely on higher education and continuous training, as well as the ability to obtain benefits from the existent technologies.

3rd stage: Innovation driven competitiveness– *innovation-driven* (new products obtained through innovation, complex production processes).

3. Results and discussions

The importance of each of these factors expressed through the weight from the total of the contribution of the three "pillars" of competitiveness depends on the stage of the respective country. In other words, in order to increase its competitiveness, *each country will have to set the priorities according to how much it can contribute to the growth of competitiveness/productivity in the present stage.* Putting one the foreground priorities which are not according to the economic conditions of the country might mean a waste of resources. There is obvious a logic in the succession of these stages as well as a logic in the connection between the circumstances of the competitiveness.

That is why the change from the exploitation of the resources to the exploitation of knowledge represents the touchstone of the leap from the cost based competitiveness to the final value based competitiveness. The stimulation of innovation, of the research-development activities represents instruments of passing to other trends of growth in the Romanian economy.

The European Union Countries according to their development stage

1st stage	2nd stage	In transition from the 2nd stage to the 3rd stage	3 rd stage
-	Bulgaria	Czech Republic	Austria
	Lithuania	Estonia	Belgium
	Latvia	Hungary	Cyprus
	Poland	Malta	Denmark
	Romania	Slovakia	Finland
			France
			Germany
			Greece
			Ireland
			Italy
			Luxemburg
			Great Britain
			The Netherlands
			Portugal
			Slovenia
			Spain
			Sweden

Source: processed by the author according to the data taken from the World Economic Forum

Macrostability is a precondition of the growth and it has to be present in all cases and in all stages. Infrastructure is very important because it is part of the economic activity, in the same way in which a primary level of education and a good health should be solved out before going to more sophisticated conditions [1]. Finally, although the idea that the innovation should be a priority becomes more and more important, only the countries which are in the third stage can count on the innovation and sophistication of the way in which the business are organised as major competitiveness factors, because they have run out the benefit of the other factors. Such an approach is not interpreted in the sense that the growth of the competitiveness relies on a single factor or that one factor is present only in one stage, but in the sense of modifying the weight of the contribution of the factors in each of the three stages.

The existence of an efficient institution and of a stable macroeconomic environment represents the condition for a sustainable economic growth, because it contributes to the growth of the gross fixed capital accumulation. The growth of the competitiveness of an economy is based on a positive correlation between the following variables:

• the existence of a stable macroeconomic environment;

• public institutions which provide the legal, correct, predictable development of the business;

• encouraging the technologic process based on innovation and creativity.

The competitiveness of an economy depends on its development stage, being evaluated according to its primary sources (institutions, infrastructure, macroeconomic stability, health and primary education), and to the ones which allow the growth of the efficiency (higher education, the efficiency of the markets and the level of technology), as well as its innovation capacity.

The analysis of the global index for the economic competitiveness shows significant disparities between Romania's performances and the ones from the Central and Eastern Europe (on the whole or as an average), and of the EU-15.

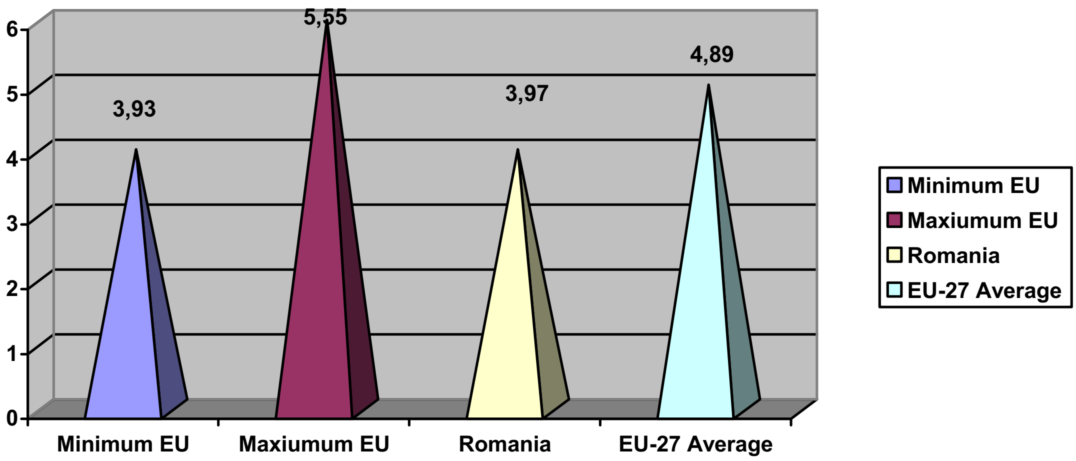
Romania's convergence with the EU countries in terms of competitiveness growth, 2007

		Romania	**EU-27**	**Minimum EU-27**	**Maximum EU-27**
	IGC	**3,97**	**4,89**	**Bulgaria 3,93**	**Denmark 5,55**
Basic sources	Institutions	**3,44**	4,59	Bulgaria 3,22	Finland 6,16
	Infrastructure	**2,57**	5,13	Romania 2.57	Germany 6,65
	Macroeconomic stability	**4,64**	4,99	Hungary 4,22	Finland 5,87
	Health and primar education	**5,62**	5,38	Bulgaria 5,57	Finland 6,58
Sources for the growth of the productivity	Higher education	**4,14**		Bulgaria 3,99	Finland 6,01
	Efficiency of the markets	**4,04**	4,90	Bulgaria 3,89	Denmark 5,43
	Technology	**3,29**	4,94	Bulgaria 3,11	The Netherlands 5,65
Innovation capacity		**3,09**	4,56	Bulgaria 2,96	Finland 5,67

Source: calculated by the author according to the data from World Economic Forum, Global Competitiveness Index 2007-2008, p.8, 13-15

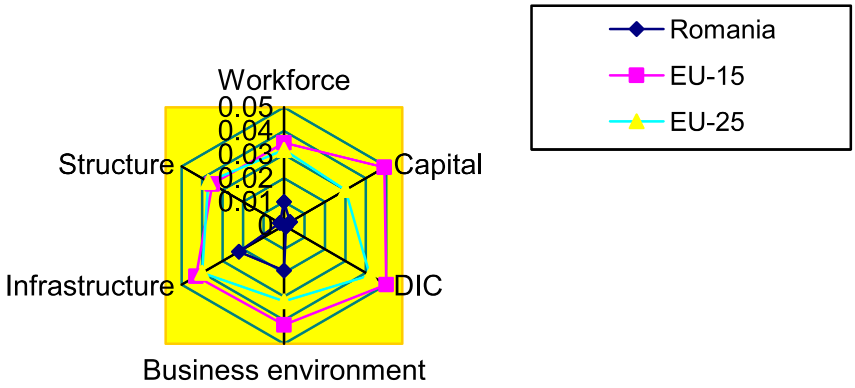
The level of the global competitiveness index for Romania raised in 2004 by 3,85 and went down in 2005 by 3,67, going up in 2007 by 4,02[6] . Romania's position in this classification for competitiveness (place 67 in 2005, place 69 in 2007, and place 74 in 2007) can be explained due to the poor quality of the institutions (business environment, perception on corruption), the reduced access to technologies and the low capacity of the economy to innovate. On a global level, all the economies from South Eastern Europe (SEE), except for Croatia and Turkey have become less competitive as compared to 2006, announced the global competitiveness report 2007-2008.

Romania's competitiveness as compared to the other European Union countries



But this does not necessarily tell us in absolute terms that the competitiveness went down, but it compares it relatively with the other countries; the results show clearly the sense of the evaluations regarding the evolution of the competitiveness - that is the place of a country in relation to the others. From this point of view, for Romania the fast improvement of the competitiveness of the other may result in the loss of some places in the hierarchy. The most efficient EU-15 economies are those from the Northern countries, and in what the new Member States are concerned the hierarchy is dominated by Estonia (with an index of 4,74 which placed it before the Southern EU-15 countries).

Influential factors of the competitiveness



The calculations from a study carried out by a European Institute from Romania [5] show that there are important disparities between Romania and the group of the EU-15 and EU-25 countries for a series of themes of the competitiveness: labour force, capital, DIC, business environment, infrastructure, and industrial structure. The radar chart below shows a global image of the comparative situation of Romania with the EU-15 and EU-25 in what the influential factors of competitiveness are concerned.

This charter shows the effects resulted from the effects resulted from the based differences between the Romanian and the EU political priorities. We can say that in the context of the economic and social problems of Romania in the transition period, the consideration of the specific objectives promoted by the Lisbon Strategy was not among the first priorities. While the EZ policies are focused especially on the growth of the competitiveness, by sustaining innovation, research and development, social cohesion and new working places, the protection of the environment, in Romania the priority objectives aimed at the economic restructuring and the improvement of the business climate.

Romania presents the highest disparities for the *CDI* index (1:39 as compared to the EU-15 average and 1:34 as compared to the EU-25 average), the *structure* index (15-16 times) and the *capital* index (1:15 as compared to the EU-15 average and 1:10 as compared to the EU-25 average). For the other three composed indices, the discrepancies are in the interval 200-300%.

At the beginning of May 2007, the European Commission made the conjunctural “spring” report public [7], which presents the forecasts regarding the evolution of the main economic indicators in 2007 and 2008 for EU, Eurozone and the Member States.

According to the opinion of the experts of the European Commission, the „engine” of the relatively high economic growth from 2006-2008should be determined by the dynamics of the internal demand and especially by the sustain rhythm of the productive investment in most of the Member States.

In the October 2008 Report it was expected that the economic growth will slow down, the EU economies being strongly affected by the financial crises.

European Union – The evolution of the main economic indicators in the period 2002-2008

- Annual modification, in % -

	GDP rhythm of growth	**Productive investments**	**Private consumption**	**Unemployment rate (in% from active at the end of the period)**	**Inflation rate (measured through the harmonized index of consumption prices)**	**Budgetary deficit (in % from GDP)**	**The current balance of payments account (in % from GDP)**

2002	**1,2**	**-0,6**	**1,6**	**8,8**	**2,5**	**-2,4**	**0,4**
2003	**1,3**	**1,1**	**1,7**	**9,0**	**2,1**	**-3,1**	**0,1**
2004	**2,5**	**3,2**	**2,1**	**9,0**	**2,3**	**-2,7**	**0,2**
2005	**1,7**	**3,1**	**1,7**	**8,7**	**2,3**	**-2,4**	**-0,5**
2006	**3,0**	**5,6**	**2,2**	**7,9**	**2,3**	**-1,7**	**-0,7**
Average 2002-2006	**1,9**	**2,4**	**1,8**	**8,7**	**2,3**	**-2,5**	**-0,1**
2007	**2,9**	**5,4**	**2,2**	**7,1**	**2,4**	**-0.9**	**-0,7**
2008	**1.4**	**1.2**	**1.1**	**7.0**	**3.9**	**-1,6**	**-0,9**
Differences in comparison with the predictions from November 2007 (percentage points)							
2007	**-**	**0.2**	**0.3**	**0.1**	**-0,2**	**0,3**	**-0,2**
2008	**1.3**	**3.0**	**1.5**	**0.3**	**1.8**	**0,6**	**-0,1**

Source: European Commission - Economic Forecast Spring 2007, May 2007, Brussels and Economic Forecast autumn 2008: growth comes to a standstill in the wake of the financial crisis

If the experts of the Commission said that there could be a significant reduction in the unemployment rate in the Member States by creating new working places in 2007-2008 (estimated to almost 5, 5 millions) and a reduction in the unemployment rate in the EU 27 by 7,2% in 2007 and 6,7% 2008; the current economic climate contradicts these optimistic predictions. Eurostat announced on 8 January 2009 that the number of unemployed from the 27 Member States of the European Union raised by 1,1 millions in one year, reaching to 17,47 millions in November while the unemployment rate from the Eurozone reached a maximum level after December 2006. The lowest unemployment rates were registered in the The Netherlands (2,7%), Austria (3,8%) and Cyprus (3,9%), while Spain registered the highest rate of 13,4%. Slovakia was on the second place with a 9,1% rate followed by Latvia with 9%.

It is expected that, under the circumstances where the economies of the European countries are already in recession or are very close to it, the GDP growth to slow down by 1,4 % in 2008, half from the growth from 2007, and by 0,2% in 2009 and by 1,15 in 2010.

In what the foreign balance of payment of the EU in 2009 is concerned, in the Report of the European Commission from October 2008 it was estimated that this will not be so favourable, and the forecasted reduction of the rhythm of growth of the international trade, the predictions regarding the Euro exchange rate and the maintenance of high price for the oil will be the factors which will influence negatively this evolution. That is why the community experts predict for 2009-2010 the maintenance of a passive balance of payments account for the EU-27 of 1,3% from GDP in 2009 and 2% in 2010. [8]

4. Conclusions

Competitiveness is one of the central preoccupations of the economic policies because the long term living standards of each nation depend on the ability of the national economy to reach and to maintain a high level of productivity in those branches which are competitive on the international markets. Presently, the Romanian economy is among the less competitive ones in the CEE countries, the disparity towards the EU-15 is more important. The quality of the technologies is very important, because it determines a higher competitiveness, under the circumstances of the growing competitive pressures. In Romania the technology is very important and the companies with foreign assets promote the Romanian research and development activities under the form of technology transfer. But this is used for the products with a reduced added value, and in most of the cases the imported technology is not a high technology. The consequence is that the Romanian exports are price competitive, but not innovative. It is obvious that the innovative economies will push forward the technological border maintaining the income difference for the countries which promote lower costs and retain the innovation costs.

Romania can accomplish a sustainable process of real convergence with the European model if it will be able to promote structural reforms which should generate the growth of the economy potential (of the aggregate supply on a long term). One of the opportunities as a Member State of the EU is the access to structural funds. These should overcome the structural disparities of the Romanian economy, as well as the faster adaptation to the requirements of a knowledge based economy (through training programmes of the workforce, the development of the informational infrastructure).

As an answer to the fluctuations of some internal and external factors of the economic system, one has to promote in economy some adequate elements which should provide the fast adaptation of the system to the enw changes, not only for survival or self-preservation, but also for sutrctural adaptations and selections which should meet the prospective requirements according to some observations, studies regarding the consequences of taking decisions, evaluating some alternative solutions of inputs and output, evaluating the risk for all categories of solutions, etc.

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