



ROMANIA'S COMPETITIVENESS PERSPECTIVES AND ECONOMIC CRISIS

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Abstract: *The World Economic Forum (WEFORUM) has been analyzing the competitiveness of nations and has observed the factors qualifying national economies to achieve persistent economic growth and long-term prosperity. The reports published by the WEFORUM during last years have served as milestone for corporate leaders and officials to improve competitiveness. The paper analyzes the results for Romanian competitiveness as it is come out of the GCI (Global Competitiveness Index) in the last period.*

Key words: *economic growth, competitiveness, post crisis recovery*

1. INTRODUCTION

The accentuation of the economic crisis during the last two years, the increase of the interdependencies between the internal and external factors, as well as the need of integrating new principles in the development strategies since 2007, constitute factors of big importance and actuality, determinants of the Romanian economy evolution in the contemporary regional framework.

The paper is a brief presentation of the competitiveness as a concept, and then an overview of Romania's growth and productivity facts that make us lag behind the EU countries. The paper further analysis the results for Romanian competitiveness as it are come out of the CGI (Global Competitiveness Index) for the last two years and want to demonstrate that Romania has only the chance of became an important entity in the new competitive environment if we want to play a real and significant role in the decision making process inside EU. This paper analyses only the macroeconomic framework competitiveness and not look after details and microeconomics data's.

2. PAPER DATA

Competitiveness, which is related to the concept of competition, is a looked-for target for companies and countries. From the standard approaches of Michael Porter (1990) and Paul Krugman (1994) to the more modern ones, highlighted by Stéphane Garelli (2008), competitiveness persisted as a preoccupation.

Since '80 The World Economic Forum has been reviewing the competitiveness of nations and the Global Competitiveness Reports have surveyed the elements qualifying national economies to develop persistent economic growth.

There are also other methodologies used to estimate competitiveness; the most comparable with GCI is The World Competitiveness Scoreboard published by The International Institute for Management and Development (IMD).

Romania has been entering after the official integration to the EU the direction of openness and closeness to the developed countries' economy, the reorganization of the economy taking place through a process of privatizing and restructuring the economic sectors.

Trends of the last ten years displayed a good track record in consolidating the macroeconomic stability while lowering inflation. At an average rate of about 5% per year, GDP growth was some of the highest in the region in the first half of the decade.

The National Strategic Reference Framework 2007-2013 (NSRF), approved by the European Commission in the year 2007, establishes the priorities of the Structural Instruments of the European Union and also creates the connection between the priorities of the National Development plan 2007-2013 and those of the European Union.

In order to enter the trajectory assumed by the NSRF Romania has to achieve the following strategic objectives of short, medium and long term:

- 2013 horizon – the organic incorporation of the durable development's principles and practices in the ensemble of Romania's public programs and politics, as a state member of the European Union;
- 2020 horizon – reaching the medium actual level of the communitarian countries at the main indicators of the durable development;
- 2030 horizon – Romania's significant approach to the middle level from that year of the EU member states from the point of view of the durable development's indicators.

Unfortunately year 2009 was a very hard year for Romania's economy, which proved entire forecasts from the year before to be wrong. Romania did not record the expected growth. Instead our country did a big step backwards after being hit by the crisis. The fact that no analyst could foresee such a development before the outbreak of the crisis was a certitude. We can see now that our managers and politicians had no valid national macroeconomic forecast to predict the real impact of the international economic crisis.

Main driver to the economic falling during last year have been a severe decreasing of the exports due to a falling external demand and bad access to credit as international financial markets froze. Internal demand, heavily based on credit was the second main driver of the recession in 2009. The main result of these economic trends was growing of the public deficit. Romania was one of the first East-Europe countries which had to apply for a credit at the EU and the IMF.

Unfortunately the Romanian Government denied last year that Romania was in danger of declaring bankruptcy. The official declarations classify the huge credit of 20 billion Euros as a safety belt for the private sector. The crisis between the legislative power and the president did not ease the economic hardships; in the meantime, the incapacity of the executive of managing the national economy delayed the payout of the second part of the IMF credit to 2010 and set the Romanian currency under further pressure.

At the beginning of the 2010 the economy of Romania was widely believed to start recovering, yet slowly and not all of the massive drawbacks can be overcome in 2010. The first semester evolutions indicate that the recovering process is still far away.

The former level of unemployment in Romania of just some 4.4% is not expected to be reached again before 2014, though a first decrease of 8% is expected for 2010. Real wages in Romania experienced a negative growth. The recent political decision of reducing wages in public system with 25% will have a significant impact in the economy. It is clear now that the times of double digit growth rates seem to be gone for the next few years when it comes to salaries in Romania.

The GDP of Romania is estimated to grow by 0.5% during 2010 (some officials and banks even estimate a growth up to 1.9%), but the former level of 2009 will not be reached in the next 3 or 4 years according to some estimations. The very same is true for exports from Romania, which have been a main driver of growth during the past years. These facts together with poor estimated industrial and agricultural incomes leads to the fact that the national economy will face new and dangerous situation generated by the gravity of the macroeconomic deficiencies.

Inflation is believed to remain on the high side for overall trends in the EU. The Exchange rate for Romania's currency is estimated to stabilize yet this estimate has not remained unchallenged.

Statistical data show that the Romanian economy was not prepared to face competitive pressure from European Union forces. Since 2007 our country has been facing eternal problem for solving the cyclical temporary shocks and it continues to favor imports of solutions that give shape to form but not substance.

Competitiveness represents, now more than ever, one of the most desirable attribute an entity (country, region or firm) is looking for on the global arena.

As we can see (GCI 2009-2010), Romania ranks the 64th (from 133 countries that the Global Competitiveness Report ranks), with 4 positions better than 2008 and with an irrelevant score improvement - 4, 11 versus 4, 1 (on a scale from 1 to 7 - the best situation).

In terms of competitiveness the 2009-2010 GCR shows us the key factors which determine our economy to act so badly in the last years in the global and regional competition.

The lowest score registered by Romania is for infrastructure - ranking 110 from 133 (comparative to 105 last year), which guides Romania to the last place into the European Union. Our country also registers the lowest scores into the EU for health and primary education and technological readiness. Other weaknesses are higher education, training and business sophistication. In fact at these indexes, from all the EU countries, only Bulgaria ranks worse than Romania. Recent developments in cutting 25% of remunerations from public employees and the perspective of letting go more people from these sectors will most likely guide our country to an even worse rank. At the beginning of 2010 Romania leave behind countries such as Greece, Portugal or Italy regarding the macroeconomic stability (with a rank of 75), but it is possible that this advantage to be rule out by the real evolution of our economy. Financial market sophistication discloses a good ranking - position 56 - comparative to countries such as Greece, Italy or Latvia. The best ranking Romania record is for market size - 41, but it losses points as regards goods market efficiency and labor market efficiency.

Comparative to the 2008 Global Competitiveness Report (GCR), where Romania was located on the last position in the European Union, this year there are three member states less competitive than Romania within the EU (Greece and Bulgaria). But the report is based on statistics from 2008 and on a survey applied to managers in spring 2009 and at this time at least Latvia was much more affected by the global economic crisis than Romania. The last months trends indicate a coming up crash for our economy so these ranking could be invalidated by the end of 2010. In conclusion, even if the 2009-2010 report indicates a small recover of Romania's competitiveness I

consider that it is unlikely to see a real improvement at the end of the year concerning our country competitiveness.

Adrian Vasilescu, the counsellor of BNR governor, said Romania has no chance to stimulate the economy in 2010. "I believe this year Romania doesn't stand a chance to recover from the crisis. ... The second half of 2010 will be very difficult for all the countries from America to Japan. As for Romania, it is absolutely sure that the economy will not recover this year", Vasilescu said.

3. CONCLUSION

Although Romania has evolved due to the EU enlargement process, and the increased competition influenced by the globalization, our country should continue developing flexibility, openness and ability to adjust with quick changes to the different economic and social challenges.

Analyzing ranks and trends of our country competitiveness as there are in the GCI, I conclude that if we want to rise above present economic status as soon as possible we have to encourage public investments especially in the country's infrastructure, quality of education and improvements concerning institutional accountability and transparency.

In the same time we have to deal with the budget deficits. I conclude that raising the level of taxation was a factor of economic irresponsibility and not a recovering measure. The key to solve this need of liquidity is the ability of Romania's government to encourage as soon as possible the absorption of non-reimbursable EU funding. We don't need right now any more credits from the IMF or other institutions. We need to invest not using credits but EU money.

Otherwise, diminished wages and incomes, increasing unemployment rate and individuals unable to pay their every day's costs and their credits to the banks, this is the most likely image of Romania for at least the next 6 months. The poor political game cannot improve the performances of the economy. It is certain that only a strong investments strategy in major national objectives and a real reform of the public sector and the public administration system, if it is done right, can have positive effects. In the absence of these actions Romania's condition in the next months can get more severe than the situation of Greece.

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