

## Miscellaneous

### Integration of the Romanian Industry into the European One

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**Abstract:** Romania’s integration into the European Union is an extremely complex process which has effects upon all sectors of the Romanian Economy. Among the main principles that are at the basis of the development of economy and the reform in the present stage, the most important position is held by the restructuring and modernization of the Romanian industry, its reorganization and privatization with a view to ensuring a durable economic progress. The industrial policy of Romania has in view to create a framework which can ensure the development of a competitive industry, in accordance with the industrial structures of the European Union, which will lead to the reduction of the gap between Romania and the other countries of the European Union. The industry, as an important branch of the Romanian Economy, produces approximately 27% of the national raw produce and contributes by 1, 2-1,5 rate to its growth annually. The Government of Romania has approved of the document of the Industrial Policy of Romania between 2005 and 2008, stating that it is essential for the three basic parts of the durable development: the economic, social and environmental one, to be interconnected and to progress harmoniously. The main goals of the industrial policy of Romania are: the growth of competition, the growth of the role of research, development and innovation, the promotion of a durable management of the resources and protection of environment; the improvement of the professional training and occupation of labour. The post-integration strategy in the industrial sector will have in view, among others, the ending of the process of privatization of the commercial companies of the industry, the presentation of the remaining industrial companies of the public property on the market, the promotion of the strategical cooperation of the holding type structures and of the economic groups with a view to connecting the Romanian industry to the process of globalization, the growth of the volume and efficiency of the export, encouraging the export of products with a high level of processing and high added value, turning into account the geographical position of Romania by directing the export to the neighbouring areas which can become outlets of maximum interest for the European Union. The most sensitive sector from the point of view of the post-integration situation is the one of the small and middle enterprises. Thus, after the integration many of them have reduced their activity or to put an end to their activity because they will not be able to cope with the competition from the European Union. A challenge for these enterprises will be the growth of productivity, under the circumstances that the average productivity of a small or medium enterprise is 19 times smaller

than the European average rate. Besides, these enterprises will feel the effect of Romania's integration over a year from Romania's integration in the European Union. The impact of Romania's integration in the European Union upon the local industry will be felt after two years from the moment of Romania's joining the Union. As a result of Romania's joining the European Union it is likely to have the following: higher wages, a relative diminishing of the population's purchasing power, which will determine a stagnation of the demand for industrial products. The effects of the improvement of the infrastructure will be felt in the long run (3-10 years). Following Romania's joining the European Union the sectors which have been mostly affected are: food industry, the industry of consumer goods and retail, the most favoured sectors are those which have a great export potential and which have low costs. Among these we mention the industry of generic medicines, the industry of oil, the industry of cars and their components, producers of raw materials.

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Romania's integration into the European Union is an extremely complex process which has effects upon all sectors of the Romanian Economy. Carrying out the Romanian reform and development according to market economy principles does point, among other things, at a large opening into the world economy.

The external economic relations of our country are mainly included in the European geopolitical space in which we stand. The integration is a complex process, which is based on the principles of compatibility and complementarily, and which consists of:

- adaptation of the economy and the social, military and political milieus to the realities in the already integrated countries, along with which it will develop later;
- developing cooperation relationships with the European institutions and the partners from within the member countries.

Through integration, the economies of participating countries become compatible and complementary, conditions absolutely necessary for their harmonious development.

The strategic objective of Romania is the convergence with the EU member states, in terms of individual welfare of their citizens and of the society in general. In macro-economics terms, the convergence with the European Union is ensuring a rhythm of economic growth higher than average for a sufficiently long time (a matter of decades).

Among the main advantages of Romania's integration into the European Union, we can mention:

- benefit of belonging to a larger family of nations;
- the security that this affiliation provides;
- the advantage of participating in the largest single market in the world;
- the opportunities related to the economic growth;
- creation of new jobs;
- access to the structural Funds destined for less prosperous regions of the European Union.

The citizen – concerned advantages of integration into the European Union are also significant:

- continuous improvement of life quality;
- high standards concerning the environmental protection;
- social protection and safety at work;
- the right to travel and settle in any member state;
- diplomatic and consular protection from another member state.

The major post-accession objectives of Romania are:

- strengthening the democratic system and of the democratic institutions;
- creating an economic and social climate that would give maximum of revenue;
- making more efficient the structures and mechanism of the market economy;
- strengthening the political, economic and cultural cooperation with the member states of European Union;
- strengthening the status of Romania on the European and international stage in terms of maximum security.

In accordance with its major objective, creating the conditions for integration into the European Union, established by Romania for the current stage of development, the fundamental principles underlying the economic development and carrying out the reform are: the restructuring of the Romanian society for the acknowledgment and pronouncement of moral and democratic values; settling the right of ownership

at the base of Romanian society; accelerating the institutional reform, starting with the Romanian Government, in order to create a modern state; restructuring and modernization of Romanian industry, in terms of its resizing and privatization, so as to ensure a sustainable economic growth; reorientation and development of the agriculture in the direction of market economy requests, by supporting the production and capitalization systems; the reform of the public finances system according to the principle of financing the economically viable objectives; equitable distribution of the transition costs in the support of social solidarities; helping Romania to rank with dignity among democracy – abiding developed European states.

The macroeconomic achievements in the recent years have made the carefully planned implementation of economic measures to significantly reduce the influence of all economic factors with disruptive potential, and establish a climate of relative macroeconomic stability. The macroeconomic projections on a medium term are positive, ensuring a solid economic growth and sustainable development.

Policies of restructuring the economy firstly advance steps to take so as to strengthen the mechanism of competition. The activity of the Competition Council will be encouraged to strengthen its ability to enforce the legislation of competition protection.

Out of all post-accession measures, the most important ones which are also in full implementing process are:

- achieving the national program of legislative harmonization, particularly aiming at the creation of an adequate framework of participating in the single market of the European Union;
- development of specific projects to capitalize the whole package of European assistance, in the restructuring and privatization domain, so as to complete the process of structural adjustment, social protection, of developing the infrastructure and building the civil society;
- developing the cooperation and concluding the free trade agreements with the countries associated to the European Union, as base of reviving their trade exchanges.

Romania considers that fulfilling the criteria established by the European Union implies a more powerful and accelerated economic recovery of the country by mobilizing the internal factors, potentiated by the closer cooperation with the

community countries, whose support, particularly financial and technical-economic, must be more substantial.

The objectives of the rapid integration into the European Union must drive Romanian authorities into seriously analysing the costs of this process in relation with the expected benefits, the proper deadline for the legislative harmonization and to what extent the process is benefited by the unfolding reform in our country.

One of the general objectives of the Romanian economic policy aims at strengthening competitiveness, which will be done mainly by: cultivating and consolidating a healthy and open business environment based on a stable and coherent legal framework, accelerating and deepening the structural adjustments; promoting the intangible investments (investments in human capital, research-development and innovation activities, quality issues, standardization, etc.) supporting the development of industrial cooperation and of SMEs, as well as through the services development.

In order to strengthen the business climate propitious to the market economy, the following objectives will be followed:

- developing a competitive economic environment in Romania, in accordance with the Community rules for the gradual alignment at the requirements for ensuring the free interchange of goods and services
- ensuring the conditions for an effective corporate management of firms;
- flexibility of the central administration and of the personnel involved in the international official relations of Romania, so the stimulation of foreign commerce and the synchronization of the internal business environment with the worldwide one should exist.

In the achieving of the post-accession programs, the business community represents a key factor for achieving the economic criteria and recording a certain progress. In turn, according to the assessments of the European Parliament, the Chambers of Commerce and Industry are the real intermediaries between the European Union and the national enterprises.

Economic agents must be able to evolve in a competitive environment, in which the state aid should be extremely restricted, and the competition rules entirely respected. According to the new regulations adopted by the Competition Council (which entered into force in January 2003), the state aid will be granted only with abiding by some strict criteria.

Along with assuming the commitment concerning the Code of Business Conduct, there will be introduced no fiscal steps to only be benefited by certain economic agents, they are compelled to evolve in a competitive environment, in which they are not to profit by discriminating fiscal easy terms.

An important aspect is to improve the investment climate in Romania, the current trade being to strengthen the economic growth through foreign direct investments. The preparations made by the Romanian Government in this domain particularly aims at taking the steps necessary to connect the Romanian economy to the requirements and standards of the EU Internal Market.

The relatively low production costs, the qualified and cheap labour, as well as geographic positioning of Romania are favourable premises for establishing new investments, with the possibility of export towards important markets of South-East Europe and the Russian Federation.

The transformation of Romanian economy and its orientation towards sustainable development in harmony with the national interests and the recent integration into the European Union points at a deeper involvement of industry, because, in order to achieve and maintain a fast of economic growth pace, the industry has a major contribution and will remain one of the main sectors of the national economy.

It can be avowed that the process of European integration will be a strong catalyst of the strategic readjustment course of the Romanian industry. Increasing the competitive pressures and the clarification of the legislative framework (for example, in what concerns the production and quality standards), along with the necessity of the Romanian producers to restructure their activities, will be the grounds of a future healthy growth.

Romania's industrial policy aims at creating a favourable environment for the development of a competitive industry harmonized with European Union structures, that should lead to the reduction of the existing gap between Romania and other EU countries. The concept of industrial policy has as purpose the improvement of competitiveness by encouraging the companies' functioning, focusing on the horizontal policies that affect all the industry sectors, namely: innovation, new technologies and processing facilities, professional abilities, education and professional training, the business management.

Romania's industrial policy presages the strategic targets, harmonized with the concepts of industrial development, adopted by the European Commission through the Lisbon Strategy. These concepts are focusing on the competitiveness of the

industrial products, as a determinant element of performance in the conditions of free competition.

The industry, as main branch of the Romanian economy, achieves, on average about 27% of gross domestic product of the country, contributing annually to 1.2 – 1.5 percent at its growth.

Within this branch, the manufacturing industry is the dominant component, covering about 80% of the volume of activity and comprising about 1.5 million people.

The purpose of industrial policy is to the market mechanisms to the best account, including trough the correction of extant failures. The concept of industrial policy usually covers the policies and associated instruments that affect firms and industries.

The European Commission has proposed a relevant definition, according to which the industrial policy relates at effective and coherent implementation of all policies liable to affect the structural adjustment of the industry, with the purpose of promoting competitiveness.

The Romanian Government approved the document for Romania's Industrial Policy for the period 2005 – 2008, indicating that it is essential that the three pillars of sustainable development, i.e. the economic, social and of environmental ones, should be correlated and evolve closely and harmoniously.

Romanian's industrial policy is based on the objectives and strategic directions of the Romania economy and industry, as well as and the fundamental elements of the European industrial policy. In conjunction with the other policies and strategies of the national economy, the industrial policy of Romania has as main objectives:

- increasing the competitiveness;
- enhancing the role of research, development and innovation;
- promoting a sustainable management of resources and environmental protection;
- improving the professional training and employment.

According to the Government's standpoint, together with the research, innovation and entrepreneurial activities, human capital ranks among the factors that affect competitiveness. Thus, the human resources and social cohesion policy aims at acquiring new skills, improvement and labour specialization.

The employment strategy and the increasing of the employment degree ensure the development of the human capital, creating jobs, promoting the adaptability of the workers and businesses to the economic changes.

A better flexibility of the workforce is also necessary and it is related to increasing its degree of mobility (re-qualification) and of perfection/specialization, so as to ensure a balancing of supply and demand in the labour market, as well as the development of the human resource management.

In the light of all changes that have occurred within the inner and regional relations pertaining to the European integration, the globalization process and liberalization of the movement of goods, services and labour, there turns up the tendency of industrialized countries to attract qualified staff, and consequently Romanian trade companies will have to cope with some increased demands of competitive products, in the conditions of confronting with an evolving industry environment.

Therefore the reconsideration of the strategy, organization and support of the indispensable training process of the working staff, on categories, specialties and domains, is an essential prerequisite.

In the industrial policy domain, a series of investments in the sectors that have medium and long term development possibilities on the European Union market are to be operated. The policy of restructuring will be implemented in a consistent manner in accordance with the *acquis* in the competition domain and the state aid, so as to create competitive and efficient companies.

The post-accession strategy in the industrial sector will be linked with the objectives of increasing the external competitiveness and internal productivity in relation to all factors of production. In this particular respect, the following steps will be aimed at:

- the enlargement of the process of remodelling the capacity and structure of the industrial production, including through development and stimulation of cooperation with partners from the European Union, on the background of strengthening market economy activities and of promoting a competitive environment, revitalizing the medium and large enterprises with a competitiveness potential;
- sequential arrangement of the economic agent selection and resizing within the restructuring process, aiming at ensuring the normal conditions for the development of the activity for satisfying the growing internal demand, and



for significantly increase the volume and efficiency of export of goods and services;

- finalization of the privatization process of trade companies in industry, exposure of the industrial units remained in public ownership at the market forces, in the conditions of strengthening the legislative discipline from the competition domain (including bankruptcy law);
- restructuring of energy and material intensive sectors; of those with overcapacities, in the sense of reducing the losses and of achieving substantial increases of productivity; stimulation of promoting the technologies that ensure the reduction of energy consumption;
- re-establishing an efficient capitalization of the national potential of research and technological development, including company research activities;
- increasing the competitive potential by promoting strategic alliances, a type of holding structures and of the economic groups of interest , in order to connect the Romanian industry to the globalization process, including the development of the complex exports;
- accelerated development, externalization and specialization of production – oriented services
- in high pace increasing in the volume and efficiency of export activities, encouraging the export of products with high degree of processing and high added value; the priority sustaining, in the permitted limits by the international framework of regulations , of the industrial sectors for which the world market is in expansion or which are bearer of technologies of high performance and which represents immature industries in Romania;
- capitalization of the geographic position of Romania, by targeting exports also towards neighbouring areas that may become outlets of maximum interest for the European Union

The Romanian industry is already operating in an open and competitive environment. This allows approaching the internal market as a first step by which the entrepreneurs can become more competitive and more “international”, in the common market of the European Union.

There are a number of measures that could facilitate the maintenance of competitiveness of Romanian companies to operate on the more competitive and increasingly important domestic market, although sometimes overlooked in an

unrealistic way. The Romanian enterprises must succeed on the internal market and at the same time, focus on international markets.

In the energetic sector, there is foreseen the constitution of the minimum stocks of oil and necessary oil products through budget and private sector financing, involving the economic agents in obtaining the new regenerative energetic resources, possibly via partnerships among public and private parties.

The restructuring of the energetic sector is in full progress, and is made through a legal separation of the activities of power generation, transmission and distribution.

In order to attract labour from non-viable mine areas, there will be developed alternative investments (technological parks, etc).

Implementing some policies of energetic efficiency which aims at the reduction of the energetic intensity of the Romania's economy, will attract significant investments, locally included. In the field of promoting renewable energies, there are now applied the recommendations of Strategy Study of RES use in Romania, prepared in collaboration with experts from the European Union countries and with Phare assistance.

In the electricity and natural gas sector, as a result of community *acquis* transposition, the opening markets occurs, with the condition of existing some licentiate suppliers and of some eligible consumers, defined by the regulatory authorities (ANRE, ANRGN). Restructuring of the steel industry (investment, financial, social), in terms of economic viability is a major priority for the Romanian economy.

In the telecommunications and information technology sector, there is foreseen a more active involvement of the companies in investments within this domain (the support of the Government through the technological parks) – possible niche for Romania to enter the European Union market.

In the regional policy development and in the structural instrument development, the carrying out of the business and development plans must take into account the perspective of realizing some regional policies, as well as and acquiring the know-how of developing viable projects for structural funds.

In the environmental protection, there is considered the re-technology and upgrading of facilities, which means the inclusion of a good part of environmental costs in the production costs. Also, there was proposed the establishment of public-private

partnerships in the environment domain (waste management, water protection, air, etc).

There will take place a drastic reduction of agricultural pollution, industrial, etc, by the economic agents, as well as and making some campaigns to convince the population to recycle wastes.

The implementation plans for the aquis in the field of environmental protection will also take into account the investments that are to be made for the environmental protection.

The most sensitive sector in terms of post-accession situation is that of SMEs. Thus, after accession, many SMEs must restrict their activity or self-dissolute because they cannot face the competition arrived from the European Union.

To become and remain competitive, Romanian SMEs need a coherent strategy in the business domain, a constant increase in their efficiency and an improvement in the quality and products image. This strategy should include investments in research and development, acquiring of new technologies, improving the managerial practices, development of creative and attractive projects and an efficient marketing.

A challenge for SMEs will be the increase of productivity, in the conditions in which the average productivity of a SMES is 19 times lower than the European average. Moreover, the SMEs will feel the effects of the accession in one year from the integration into the European Union.

In order of capitalizing the important economic growth – oriented and job – providing potential of the SME sector, the following steps will be taken:

- providing simulative easy-terms ( loan guarantees, interest subsidies, grants);
- organizing consultancy centres and training, entrepreneurial training, technologic parks and business incubators, assisted by the state to provide SMEs with free of charge or lower cost services;
- supporting of SMEs participation in projects based on public investments or accomplished with external finance
- Supporting SMEs has as an objective the strengthening of competitive Romanian presence on the internal market by:
- maintenance in applying the European standards and compliance with the community legislation with regard to the inner market;

- implementing the strategy concerning state aids for the purpose of supporting SMEs, respectively the innovation, the continuous professional training, the compliance with the environmental requests, and access to technology;
- creating an adequate infrastructure of business support and easy access at finance for SMEs;
- increasing the administrative-legislative transparency and efficiency

The impact of Romania's integration into the European Union on the local industry will be able to fell in two years from the accession moment.

As a result of the accession, it is possible to witness an increase in the wage costs, a relative decrease of the purchasing power of the population, which will lead to a stagnation of demand for the industrial products. The effects of improving the infrastructure will be felt on long term (from three up to ten years). After the adhering to the European Union the most affected sectors are the food industry, the goods of large consumption and retail, and the most advantaged sectors are those with high export potential and which benefit by low costs. Out of all these we mention the generic drug industry, the oil one and the refining, the auto domain and auto components.

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