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The Analysis of the Romanian Business Environment in the Context of the Adherence to the European Union

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Abstract

Performance is a state of competitiveness that ensures the maintenance and the development on the market, where everybody attempts to reach the first place. Each enterprise will take advantage from the business environment, and in order to get one step ahead the others it will „invent” new methods of winning the competition, since nowadays performance has got larger valencies (global performance or lasting development). This paper tries to assess the Romanian business environment on sectors of activity, especially in the year 2007, when Romania has become a member of the European Union and to make comparisons between the Romanian business environment and that of other countries. We believe that a valid analysis of the business environment is very important as it helps the enterprises to be aware of the direction they are heading and contributes to pointing out the favourable factors it should develop, the ones that give them a competitiveness advantage, but also the factors that have a bad influence. Moreover, we try to present the strengths and the weaknesses, the opportunities and the drawbacks of the Romanian business environment.

Introduction

In a world of competition, that has become increasingly dynamic, as a result of changes within the financial environment and of the increase of risk once with the economical-financial disturbances and the globalization of money and capital exchange, the achievement of „*excellence*” in business represents the only way of survival and development of enterprises in a competitive economy. One of the ways to achieve excellence is performance, thus more people speak today of *global performance*. This new approach upon performance is currently known as *lasting development*, which has three objectives: the increase of economic-financial performance of the company, the development of the efficiency of the surrounding environment and the stimulation of social development. Therefore, we can say that global performance represents the sum of economic-financial, ecology and social performances.

In the present conditions of the globalization of world economy, an enterprise is performant if „it creates added value for its shareholders, satisfies the clients demand, takes into account the opinion of employees and protects the surrounding environment. Thus, shareholders are satisfied because the enterprise has reached the target of rentability, clients trust in the future of the enterprise or the quality of its products and services, employees are proud of the company they work in, and the society benefits, through the policy adopted by the enterprise, of the protection of the surrounding environment.”¹

To meet these objectives, we consider that the *analysis of the business environment* in which the enterprise develops its activity has a great importance, especially in the present conditions when performance has much exceeded the borders of traditional approach which used to take into account only the economic-financial objectives, because the factors that influence the business environment, the advantages or restrictions it presents, can facilitate or stop the achievement of global performance. On the other hand, it is not at all surprising the fact that the environment in which the enterprise develops its activity is not organized to respond to its vision and interests but, on the contrary, many components of the environment can be opposite so that the enterprise is the one that has to permanently adapt to environment changes, and adaptation implies firstly knowledge and information.

The business environment is a sum of factors that affect the capacity if the enterprise to develop and maintain successful transactions with its partners. Romania’s adherence and integration in the European structures has had, still has and will further have a major impact upon the local business environment. In these conditions, we are going to speak not only about the Romanian business environment, but also about the European business environment in which, once with the elimination of borders, many changes will take place regarding the national enterprises and the national economy, in general.

In what concerns the history of the economic and social-political of Romania along the last decade, the most important step made by our country has been the *adherence to the European Union*, a reality which offers both possibilities of development and some aspects that could stop this process.

¹ Jianu Iulia, “*The performance – a notion which looking for define . Ambiguity and clarity*”, Accounting, Expertise and Business Audit Review, no. 5/2006, Bucharest, pag. 18.

The history of Romania's integration in the European economic block began in 1995, when the European Council required the Commission to present its point of view regarding Romania's adherence to the European Union, after that on the 22nd of July it had handed the official request of adherence. In accordance to this desideratum, on the 15th of July 1997 was born the so-called community "acquis"², that made rough critics to Romania's request of adherence. The final decision was based on the criteria from Copenhagen, by which it was admitted the fact that Romania had passed through an important development regarding the achievement of political conditions, but also remarked that on mean time period (not even speaking of the short term situation) the country faces great problems with economic competitiveness and reaching the European competitive level. The biggest concern to that moment was the fact that judicial homogenization was not even a priority to our country, while on the structural plan, not even the most elementary legislation was adopted.

Starting with 1998 the Commission has yearly elaborated a "monitoring" report. The first such report admitted the fact that the first criterion from Copenhagen, namely political stability, was achieved, but Romania was still steady with national economy and its competitiveness worsened. In 1999 social problems regarding the protection of the under-aged were discussed, together with the issue of discrimination against gypsies. However, the general economic situation still recorded no improvements, but there was considerable progress in taking the community acquis.

In spite of major economic problems, the European Union has proposed the Commission to start negotiations and talks regarding Romania's adherence. The focus point of the official discussions on this purpose was chosen on the 15th February 2000, this fact being mentioned in an addendum to the report of the Helsinki Meeting from December 1999. Also, on the same date, there began talks with Slovakia, Latvia, Lithuania and Malta, countries that managed to meet the requirements of the European Union 3 years earlier than Romania.

Parallel to preparations for the start of negotiations, our country has developed a sustained effort to shape an economic strategy in the mean term. This strategy, sustained by a political statement of support made by the entire political, social and economic spectrum in Romania, was presented to the European Commission on the 20th of March 2000. On May 30, 2000 it was approved and transmitted to the European Commission the plan of action so that the strategy objectives be put into practice. The strategy regards the rigorous assessment of the social costs of transition and promotion of reform, as well as of the adherence to the European Union, ensuring the necessary financial and legal support. Moreover, one of the objectives of the strategy was *to create a favourable business environment, based on a coherent and stable legislation framework able to ensure the development of market economy, the reduction of transition costs and of fiscal burden; to promote specific measures to stimulate the small and mean enterprises; to define clearly property laws, ensure adequate management and judicial structures, able to ensure the application of law and the respecting of contract obligations.*

From 2000 the country reports elaborated by the European Commission already describe an economic and social-political situation about to improve, pointing out the

² The official opinion of the European Union, represented by the European Commission.

progress in the social plan regarding the situation of minorities and harmonization of legislation, and *in 2004* Romania was given the *status of functional market economy* – the last criterion that had to be met. Therefore, talks with the purpose of adherence were closed on December 14, 2004. Criteria from Copenhagen were achieved with some exceptions; in the case of eight domains Romania required and received departing from the achievement of the expectancies of the Union. These domains were the free circulation of services and capital, legislation regarding economic competition, agriculture, transports, the problem of taxes, the energy policy, the protection of environment. The chapter with the most difficult issues was that concerning the competition policy and those from the domain of internal and judicial policy.

In 2002 was set the date of adherence, on January 1, 2007. Although 2007 was already fixed as the time of the adherence, there also arose the certainty of great sacrifices from Romania in the time left. With this purpose, in the treaty of adherence, as final disposition, it was mentioned the fact that if the country would not meet until the moment of the adherence all the objectives it had agreed with, the date could still be changed to the 1st of January 2008.

25 aprilie 2005 was the date when Romania together with Bulgaria signed the treaty of adherence to the European Union. In the context of this treaty the two countries could achieve the status of member with full rights starting with the 1st of January 2007. Romania had waited for 12 for the de jure adherence to take place. We say de jure because in what concerns the commerce and the partnership between Romania and the European block the de facto integration had taken place previously. The failure of the CAER brought a rapid – but not sudden – reorientation of the Romanian commerce towards the European Union, a phenomenon specific to all the other countries from Central and Eastern Europe. By the end of 1999, more than 65% of Romania's exports headed to the European Union, while imports coming from the European Union reached a percentage of 60%. The European Union-15 represented in 2001 59,6% of the commercial fluxes of Romania. The figures can be compared with the amount of inter-European commerce of many of the states of the European Union. We can say that at least from the commercial point of view – with the exception of certain tax barriers for agriculture and of some industrial sectors protected by the European Union – Romania integrated de facto within the community commerce right before 2007.

The year 2007 marks the passage from the phase of acquiring of *acquis* to the phase of generation of *acquis* and construction of the political Union. The fact that Romania has adhered to the UE in 2007 left few time to companies to prepare, in case they have not yet done that. The business environment becomes more competitive, and Romanian companies have to compete with firms renown in Europe.

After 2007, the activity of firms from Romania has to be licensed on the market according to the European standards of competitiveness. The activity of companies has to be assessed by informatised systems (in present there are SAP and SIVICO, but there will also be introduced another American system). There is some danger – not very imminent however – that the Romanian economy not be able to meet the European technological standards.

Romania is now in the centre of attention for the European Union from two main reasons. Firstly, it is one of the countries that recently adhered and even if it was

supposed from the previous time to prove stability and economic growth, now it is even more supposed to do that, and it must compare its strengths and achievements “with the members of a select club”.³ Secondly, Romania is part of a courageous project⁴ of the European Union in what regards the development in the Black Sea area. This project has a great importance among the objectives of the development policy of our country. One of these objectives is the strengthening of collaboration within the Organization of Economic Cooperation of the Black Sea for the development and effective application of projects already agreed upon (energy, financial and bank system, transport, tourism), with the view to update its activities to the priorities of national economy and the interests of groups of Romanian businessmen.

From these reasons, the development of economic competition and of services in Romania is both the goal of our country and of the European Union, while in the opposite case their plans could be slowed down or even stopped.

One year after the integration in the European Union, due to reforms from the sector of credits and tax payment, Romania holds the 48th place from 176, in the classification of states with the most favourable business environment, according to the annual report „Doing Business 2008”⁵ realized by the World Bank. This classification was made in accordance with a certain methodology, based on data from 10 domains regarding the period April 2006-June 2007.

The classification made by the World Bank and the International Finance Corporation is based on time and cost indicators meant to respect the requirements of public administration about the setting of a business, the functioning, commercial activity, fiscality and closing of the business. This classification does not concern variables such as the macroeconomic policy or quality of infrastructure, the fluidity of currency, the perception of investors or the rate of criminality.

According to this classification regarding the attractiveness of the business environment, Romania steps 7 positions compared to the previous year (from the 55th place), recording significant progress only in two of 10 domains, after which the classification was realized, namely: *the easiness to contract credits* (from 32 in 2006, to 13 in 2007) and *the easiness to close (liquidate) a business* (from 109 to 81). It stepped one position from the previous year in what concerns the domain of *tax payment* (from 135 to 134) and the domain of *transborder transactions* (from 39 to 38). In exchange, regresses were recorded with the results obtained in five of the most significant domains (less than 12 places from 2006) as follows: *the setting of a business* (from 14 to 26), *the staff employment* (from 133 to 145), *the property recording* (less than 11 places from 2006, from 112 to 123). At chapters *obtaining of licenses* and *protection of investors*, there was also some regress, less significant however (from 87 to 90, respectively from 32 to

³ Dragos Pîslaru, founding member of the Group of Applied Economy.

⁴ The initiative to institutionalize the interest for the Black Sea area manifested itself in 1992, when 11 surrounding states founded the Organization of Economic Cooperation at the Black Sea (BSEC), which set as its objective the gradual integration of the region in the world economy, especially the European one. It was firstly taken into consideration the potential of the market and the resources of the region. The European Union did not define clearly a policy for the Black Sea area, but the example of the Euro-Mediterranean partnership, or Finland's attempts to cooperate in the Northern area suggest that there won't be long until such a policy is shaped.

⁵ <http://www.doingbusiness.org/economyrankings/>

33). In a single domain – *the contract application* – Romania occupied the same position in both years (position 37).

If we take into account the classification for the area of Eastern Europe-Central Asia, Romania stands, according to the same report, on the 9th place of the 28 countries, after Estonia, Georgia, Latvia, Lithuania, Slovakia, Armenia, Hungary and Bulgaria, being followed by Slovenia, Czech Republic, Turkey, Kazakhstan, Poland.

Within the region, Romania stands out by the attractiveness of the business environment, occupying the first 5 places at the following chapters: *the easiness to contract a credit* (2nd place in the region), *protection of investors* (3rd place), *the easiness to start a business* (4th place), *transborder transactions* (5th place). Among the 28 economies of the region, Romania stands in the middle of the classification at the following chapters: *obtaining of licenses* (the 11th place), *application of contracts* (the 13th place) and *closing (liquidation) of a business* (the 15th place). It is situated on the last places at 3 of the 10 chapters according to which the classification was made, namely: *tax payment* (the 20th place), *staff employment and property record* (the 26th place). The leader of the group that realized this report, Simeon Djankov, pointed out the fact that states from Eastern Europe and the former Soviet block surpassed the states of Eastern Asia in what concerns the attractiveness of the business environment, some of them even compared to states from Western Europe (for example Estonia, Georgia, Latvia, Lithuania which are nowadays classified in front of countries like Belgium, Germany, Austria or France).

A classification made by the Economist Intelligence Unit (EIU)⁶ forecasts that in 2008 Romania would stand on the 45th place with 5,46 points on a scale from 1 to 10. Thus, Romania maintains the place obtained in 2007 when it got 5,32 points.

The classification was made on basis of data obtained at the level of economies from 70 states all over the world. To make the top there were taken into consideration **100 quantitative and qualitative variables** organized into **six distinct categories**, feed into the e-readiness rankings. The six categories (and their weight in the model) are⁷:

- ***connectivity and technology infrastructure (20%);***
- ***business environment (15%);*** As in previous years, scoring model in 2008 makes use of our existing Business Environment Rankings, which evaluates over 70 separate indicators grouped in ten categories of criteria, such as political stability, macroeconomic health and the country's overall policy towards free enterprise. Utilizing these allows us to assess each country's ability to maintain a stable, secure and unfettered place to conduct commerce in the manner in which it attracts and fosters (or repels and hinders) digital commerce. The rankings for this category reflect our view of each country's expected performance in the five-year period of 2008-2012⁸.
- ***social and cultural environment (15%);***
- ***legal and policy environment (10%);***
- ***government policy and vision (15%);***
- ***consumer and business adoption (25%).***

⁶ <http://www.eiuresources.com/mediadir/>

⁷ www.eiu.com/sponsor/ibm/e-readinessrankings2008

⁸ "E-readiness rankings 2008. Maintaining momentum A white paper from the Economist Intelligence Unit", The Economist Written in co-operation with The IBM Institute for Business Value

The data used in the rankings are sourced from the Economist Intelligence Unit, Pyramid Research, the World Bank, the World Intellectual Property Organization and others. Qualitative criteria are assessed by the Economist Intelligence Unit's extensive network of country experts, and their assessments are reviewed by top economists.

In the classification on regions, most points (the first three places), for the region of Central and Eastern Europe (see table no.1) were obtained by countries like: Estonia, Slovenia, Czech Republic (these being the countries with most „nominations” for the first three places), then Slovakia, Lithuania and Hungary, each with one „nominalization” for the first three places in the categories the classification was made. In the following table we present the situation of the top of countries from Central and Eastern Europe, on categories of criteria and points.

Table 1: The situation of the classification of countries from the region of Central and Eastern Europe in top 70

Categories of Criteria	Connectivity and technology infrastructure (20%)	Business environment (15%)	Social and cultural environment (15%)	Legal environment (10%)	Government and vision (15%)	Consumer and business adoption (25%)	Overall score	Place 2008/2007
Country								
Estonia	6,50 (*)	7,81 (*)	6,73	7,80 (*)	6,25 (*)	7,60 (**)	7,10	28/28
Slovenia	6.40 (**)	7.32	7.00 (*)	6.60	6.10 (**)	7.70 (*)	6.93	29/29
Czech Republic	5.95 (***)	7.42 (**)	6.87 (**)	6.90 (***)	5.70 (***)	7.20 (***)	6.68	31/31
Hungary	5.30	7.08	6.47	6.90	5.55	6.75	6.30	33/34
Slovakia	5.40	7.42 (***)	6.40 (***)	6.90	4.70	6.05	6.05	36/39
Latvia	5.60	7.10	6.20	6.90	4.70	6.10	6,03	37/37
Lithuania	5.00	7.09	6.33	7.20 (**)	4.70	6.35	6,03	38/41
Romania	4.70	6.57	5.47	6.30	5.25	5.20	5,46	45/45
Bulgaria	4.40	6.79	5.33	6.30	4.55	4.70	5,19	48/48

Note: The symbols (*), (**), (***) attached to the points allotted to criteria according to which the classification is made, signify the position (I, II, III) the respective country occupies by the amount of points obtained to one of the 6 criteria, for the Central and Eastern European region

Source: "E-readiness rankings 2008. Maintaining momentum A white paper from the Economist Intelligence Unit", The Economist written in co-operation with The IBM Institute for Business Value

The process of adherence to the European Union triggered off the improvement of the business environment in many of the states from Central and Eastern Europe, however these states' motivation to implement reforms decreases once with the acquiring of the quality of member of the European community, according to the report realized by the European Intelligence Unit (EIU). At the international level, the same report assesses that the business environment will maintain favourable for the next five years (2008-20012), in spite of obstacles like: the intensification of protectionism, the risks of the security system and macroeconomic disturbances, which might transform in big global threats. With all these, the process of globalization is still yet to go on. The international trend of liberalization and regulation will be further sustained by important factors, such as the increasing concurential pressures upon multinational companies and the competition between different countries for foreign investments.

In order to resist to the strong competition in the current context of globalization, the Romanian business environment, as part of the European business environment, has to offer attractive conditions both for local and foreign enterprises, with the view to increasing the country competitiveness.

A country competitiveness represents its capacity to create and maintain the institutional, economic and infrastructure conditions that would favour the setting/attraction and development of companies producing goods and services at a higher quality and/or at lower prices than in case of external competitors. The capacity of competition manifests itself both on international and on national markets, as related to the goods and services from import.

In present the country competitiveness is mainly ensured by the small costs of work and of certain local raw materials and manifests itself in sectors characterized by a relatively small added value. This model of competitiveness is specific to many countries situated to a lower level of economic development. At the same time, taking into consideration the increase of internal prices, the external opening of the country, the abundance of cheap manpower in other countries, the intense emigration of citizens, ***our comparative advantages determined by small costs will erode more and more, while the technological lagging behind developed countries could get worse.*** This is why it is necessary to ensure a gradual transition from competitiveness determined by the cost factor to the competitiveness determined by the efficiency factor and the quality factor together with the orientation of the economy towards branches with a relatively higher added value. Competitiveness based on efficiency and quality will be the basic source of lasting economic growth and development and improvement of living standards for people.

The increase of competitiveness on internal and external markets by ensuring the transition from competitiveness based on costs to competitiveness based on efficiency and quality. The most important progress indicators are:

- Rate of growth of work productivity on sectors and branches of activity;
- The relative work productivity in Romania (compared to similar indicators in the main competing countries in the region – Bulgaria, Latvia, Lithuania, Ukraine etc.);
- Structure of raw added value on sectors and branches of activity;
- Rate of finite products within the total of exports;
- Growth of the amount of GNP;
- Amount of intensive products in technology within the total volume of production;
- Rate of growth of exports on the main sale markets, related to the total growth;
- Rate of main local products on the segments of external market

A first step in this direction was made in Romania by elaborating the project of the **National Export Strategy (NES)**.⁹ This process is the result of collaboration between state institutions with attributions in the economic domain and private environment. The identification of sectors with potential for export has determined the realization of a

⁹ *National Export Strategy 2005-2009*, Commission of Strategy, Competitiveness, Marketing and Branding, Council of Export, August, 2004

plan of measures annexed to the document which states the intention to increase substantially the exports for the following years.

The initiatives and measures from the NES are focused on: *technological development, identification of resources and products required on external markets, improvement of the process of production of services, reduction of production costs, programs of training for the staff, support for research and design, promoting of the Romanian scientific research abroad, development of services of quality certification, development of business alliances between companies and associations which act especially at the level of the region, diversification of services, growth of manager skills and preparation of firms for the competition from the European market after the 1st of January 2007.*

The domains with potential for export were identified by work groups built on the principle of public-private partnership. The 23 sector groups identified the opportunities of development of the offer for export in the following domains: clothing, furniture, wine, glass and pottery, chemical products, technology of information and communications, machine constructions, machine equipment and components, rural tourism, ecology agriculture, spa services, crafts, electronics and electrotechnics, culture and other emerging services representing the protection of environment, research, development, quality certification, transport etc. In exchange, the 7 intersector groups have focused upon the identification of common parameters to all sectors with potential for export which have to be respected in order to reach the target of the strategy (competivity for export of Romanian enterprises, commerce information, commerce financing, quality management, skills development, facilitation of commerce, promotion and branding, research and innovation).

According to the Strategy, Romania, in its quality of exporting country, has to focus on products with great value, on attracting local and foreign investments, introducing in the system of production components that are now imported (for example in the sector of clothing, the raw materials produced in the country), the branding of exporting sectors, identification of market niches etc..

The first projects of sector branding regard the domains of IT, vineyard-wine, furniture and clothing. To their achievement contribute, besides the Ministry of Economy and Commerce through the Department of External Commerce, other ministries, syndicates, professional associations.

The elaboration of the National Export Strategy took nine months and it was launched under public debate at the beginning of September 2005. The technical assistance was provided by the International Centre of Commerce from Geneva OMC/UNCTAD.

In order to achieve successfully the SNE objectives, it is necessary to evaluate the Romanian economic environment to know its strengths and weaknesses, so that the initiatives and measures proposed have a real base of realization. Specialists assigned from the organizations that collaborated with the government to elaborate the strategy had no easy task SWOT analysis of the entire Romanian economy is rather difficult to make because there are significant differences between its sectors and sub-sectors, and the climate in which the economic activity develops is the result of national and international wide interaction of several factors.

The sum of these factors constitute the external macroenvironment which exerts an indirect influence upon it, while the reverse influence is less significant or does not exist. Just by taking a look at the dimension of the enterprise we may notice that this can do little or almost nothing to have an impact upon its macroenvironment. It just has to monitor its evolution and prepare for unavoidable changes. In exchange, the business environment can produce many effects upon the microeconomic activity by the measures taken by organizations in charge.

The macroenvironment includes a complex set of variables that form together a framework led by the following factors: economic factors, technical and technological factors, the demographic factor and the structure of population, social-cultural factors, political-judicial factors and natural factors.

The SWOT¹⁰ analysis realized on groups of factors was based on an aggregation of several SWOT analyses prepared by every of the teams specialized in strategy (see Table no.2)

Table 2: The SWOT analysis of the Romanian business environment

STRENGTHS	WEAKNESSES
<p>Human resources, social capital, infrastructure of education and research</p> <ul style="list-style-type: none"> ▶ Great amount of manpower, at low costs and an acceptable level of initial education ; ▶ The existence of infrastructure of research and training (schools and institutes) specialized on important domains of activity such as: wood processing, machine construction, machine components, industrial equipment, textiles, chemicals etc. ▶ The educational system has the infrastructure, the institution and human resources well—prepared and distributed in territory in strategic domains (IT&C, textiles, furniture, chemicals and oil-chemicals, engineering) ; ▶ The good concentration of foreign languages speakers in the big cities; ▶ Very well-prepared specialists with key positions in transnational companies; 	<p>Human resources, social capital, infrastructure of education and research</p> <ul style="list-style-type: none"> ▶ Lack of synchronization, communication and cooperation between companies, research institutions and the public sector; between banks and companies; between the suppliers of utilities and natural resources and processors; ▶ Insufficient connections and cooperation between the needs of the business sector and the educational system in the curriculum area (IT, furniture, textiles); ▶ Low capacity of association in a business or between firms in order to create marketing, branding centres etc. ▶ Low level of knowledge about foreign markets and the effects of the UE integration, globalization and

¹⁰ http://www.cpisc.ro/files/13_septembrie/SNE_document_final;
www.mie.ro/euroimm/%3Fid2%3D0301+analiza+swot+a+comertului+exterior+romanesc

<p>▶ Cultural heritage specific to the European context.</p> <p>Natural resources and the environment</p> <p>▶ Natural resources available for wood processing (90% of the main types of regenerative wood), quality of soil;</p> <p>▶ Increased biodiversity, climatic conditions good for the health and unique ecology systems as the Danube Delta;</p> <p>▶ Natural conditions good for the agriculture.</p> <p>Other significant factors regarding competitiveness</p> <p>▶ Friendly business environment and a national infrastructure in course of modernization with UE funds. Macroeconomic stability.</p> <p>▶ The existence of industries able to provide and adapt the offer within the national value chain for the integration on vertical of the products of strategic sectors such as: furniture, car industry, chemicals, electric objects, metal processing and IT&C;</p> <p>▶ Complementarities and capacity of vertical specialization in European industries like car construction, car components etc.;</p> <p>▶ Long tradition in manufacturing sectors like: textiles, wood processing, chemistry and oil chemistry, metal processing;</p> <p>▶ Governmental support for strategic sectors in certain key areas such as: development of the infrastructure IT&C;</p> <p>▶ Increased interest and pro-active attitude of business associations for ecologic farms</p>	<p>liberalization;</p> <p>▶ Lack of understanding the need of quality control and certification, of creating and protecting brands and industrial property or of the requirements, advantages and priorities for a lasting development, rural development and protection of environment;</p> <p>▶ Focus on sectors with low added value/strategies based on reduced costs;</p> <p>▶ Insufficient capacity of industries (IT, ecology agriculture, food processing) to absorb funds due to low demand and lack of entrepreneur skills;</p> <p>▶ Lack of management skills and brand building and networks of distribution on foreign markets which determine a low degree of market sophistication</p> <p>▶ Insufficient marketing resources, market development and promotion at the level of company, association, macroeconomic and public level;</p> <p>▶ Lack of experience of farmers in creating business plans and getting financing from available sources like the UE SAPARD program;</p> <p>▶ Low adaptability of manpower and low level of learning all along the time of life;</p> <p>▶ An important segment of population affected by poverty and social exclusion</p> <p>Natural resources and the environment</p> <p>▶ High level of wood cutting and use of wood resources in primary industries with small added value, such as export</p>
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<p>and the special priority of this sector in the programs of adherence and integration Romania-UE combined with the introduction of legislation accordingly;</p> <ul style="list-style-type: none"> ▶ The measure of the internal market; ▶ Favourable geographic conditions such as: fast connections with foreign markets with good possibilities of car, railway, sea and Danubian transport. 	<p>of unprocessed wood and timber;</p> <ul style="list-style-type: none"> ▶ Low protection and promotion of biodiversity; ▶ Inefficient agriculture (exceedingly intensive in labour), the excessively fragmented agriculture surface; ▶ Poorly developed touristic infrastructure and inadequate marketing; ▶ High energy intensity <p>Other factors significant for competitiveness</p> <ul style="list-style-type: none"> ▶ Technological disparity and low level of modernization of technologies (viculture, furniture and other processing sectors), low productivity, high costs (excepting the labour); ▶ Disparity from advanced standards of quality and environment; ▶ Digital disparity in the electronic commerce, e-business and the use of IT services and of computer-assisted technologies; high costs for the Internet and phone infrastructure; ▶ Lack of information about markets and marketing skills; ▶ The inexistence of a coherent image of sectors; ▶ The business environment is still altered by monopol agreements, corruption cases and the lack of collaboration, communication, transparency; ▶ Connections with producers of textiles, ornaments, accesories etc. of companies from the final sectors
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	<p>(clothing and textiles) were broken;</p> <ul style="list-style-type: none"> ▶ Weak links on the value chain between final processors of oil-chemical goods such as tyres, plastic materials etc. and suppliers of raw materials and increased costs of production in primary industries ; ▶ Financial blockings at the level of productive companies; ▶ Lack of cooperation between foreign investments in sectors considered as an important source of managerial know-how, transfer of technology and access to foreign markets and other production factories within the respective sectors, even if they have different production profiles; ▶ Insufficient efforts of restructuring and recapitalization for the infusion of new technologies capable of helping the sector and create and increase the added value of the product; ▶ Dependence on raw materials and imported accessories such as: lack of offers of local raw materials and insufficient technical endowment of primary sectors; ▶ Flawed local legislation regarding the commerce of goods, exports and transport; ▶ Degraded and insufficient infrastructure/ <p>low accessibility inside and outside the country.</p>
<p>OPPORTUNITIES</p> <p>Human resources, social capital, infrastructure of education and research</p> <ul style="list-style-type: none"> ▶ Romania's adherence to the UE. Romania will benefit from the UE of research and education infrastructures, legislation 	<p>THREATS</p> <p>Human resources, social capital, infrastructure of education and research</p> <ul style="list-style-type: none"> ▶ External brain drain, especially in the case of IT specialists, engineers,

<p>framework and support schemes;</p> <ul style="list-style-type: none"> ▶ Education and research will be more tied to production; ▶ Good general knowledge of foreign languages allowing the development of delocalized services; ▶ Dimension (the second country as population from the new member states - 10+2 and the seventh of all UE countries); ▶ New sources of investment, including the Structural and Cohesion Funds; ▶ Development of business infrastructure; ▶ Bigger direct foreign investments; ▶ Modernization of the capital and of other city centres where most of the learned population lives; ▶ The necessity/acceptation of the need to change; <p>Natural resources and the environment</p> <ul style="list-style-type: none"> ▶ Increased interest for the protection of environment and biodiversity in the world and in Europe; ▶ A new type of consumer, interested in ecology, protection of environment, biodiversity; ▶ Romania as touristic destination – niche tourism -potential knot in the region for natural gases and electric energy transport ▶ Modernization of agriculture <p>Other factors significant for competitiveness</p> <ul style="list-style-type: none"> ▶ Romanian enterprises will benefit of the scale economy of the great community 	<p>mathematicians, inventors;</p> <ul style="list-style-type: none"> ▶ Lack of a well-developed school of industrial design with connections with the business environment in important production sectors such as: textiles, clothing, furniture etc. ▶ Focusing of human resources upon unspecialized activities with small gains; ▶ Lack of interest of enterprises regarding the use of the results of the activities of research-development and innovation for the improvement of competitiveness of products and services; ▶ Low interest for innovation and original brands. <p>Natural resources and the environment</p> <ul style="list-style-type: none"> ▶ Loss of biodiversity and rural cultural heritage because of chaotic economic activities; ▶ Concentration of activities in cities and an unbalanced development between cities and rural areas; ▶ Climatic changes/degradation of the natural environment. <p>Other factors significant for competitiveness</p> <ul style="list-style-type: none"> ▶ Integration but not convergence within the EU; ▶ Greater exposure to competition on globalized markets; ▶ Value chains of the strategic sectors are inefficient and weak, having
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<p>market;</p> <ul style="list-style-type: none"> ▶ Liberalization and globalization of commerce and the modernization of business models; ▶ Delocalization and growth of competition between CTNs and IMMs to set or enter world value chains; ▶ The great importance given by the UE to the “new economy” and the high-tech sectors, development of infrastructure, energy efficiency, protection of environment; ▶ The existence of IT&C, electric, electronic and hardware industries relatively developed and a great number of specialists in this domain who can face the requirements of informatisation; The application of e-commerce/e-governing techniques ▶ Complete liberalization of public acquisitions 	<p>reduced profits and being much too dependent on international value chains;</p> <ul style="list-style-type: none"> ▶ Strengthening of Romania’s position/image as an economy focused on sectors with low added value; ▶ Poor e-business infrastructure; ▶ Lack of significant information about the market in highly specialized domains (IT externalization, industrial subcontracting, organic farms); ▶ Inconsistent country branding; ▶ Low productivity and efficiency in the consume of utilities and raw materials as compared to competition; ▶ Aggressive foreign competition borrowing segments from the local market in sectors such as: textiles, furniture, metal and wood processing etc. due to liberalization and integration. ▶ migration of certain industrial sectors towards external locations with lower costs ▶ long periods of stagnation/economic decline at European or world level
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Considering this SWOT analysis we can say that the Romanian economy has a relatively small level of competitiveness in the European context, and Romania attracted smaller investments per capital, as compared to other countries from the region, because of the absence of a transparent legislation frame and an increased competition in the region. The competitive disparity compared to the rest of the EU member states cannot be ignored in the conditions of the importance the European market has for Romania. It is very likely for this disparity to grow within the perspective of an even greater liberalization and integration of the world commerce, leaving the Romanian exporters in a critical situation.

In spite of the continuous opening of the external commerce and in spite of significant performances of exports, Romanian exports are still not enough diversified. This is mainly due to the fact that only few enterprises run innovative or research activities in the development of their products and activities. A short look upon the principal Romanian exports proves the fact that the majority of them are traditional sectors. There

hasn't been much innovation and, for this reason, there are still few industries intensively using new technology.

In consequence, Romania's strategic priority should now be *the competitive advantages, the development of capacity and competence of exporting sectors, attraction of local and foreign investments and creation of an economy able to develop in conditions of free commerce in a more globalized market*. Direct foreign investments (ISD) represent a source of capital, of know-how, of technology and management skills and stimulate economic growth. Romania has to become a better candidate for the absorption of direct foreign investments, especially those oriented towards export.

Romania can no longer be defensive or protectionist, but focus on problems of access or regularization of supply of products and services for domestic market. The introduction of the common custom tax once with Romania's adherence to European structures from January 2007, imposes a fast adaptation to the conditions of the international market. It is essential that productive sectors take into account this aspect.

Competitive advantages do not appear out of protectionism, rates or preferential access to market. In fact, these measures can have a negative effect upon economic performances because they lower the motivation of enterprises for efficiency, quality and innovation.

From this point of view, we consider useful the analysis of the situation of Romanian economy through the basic economic-financial and money indicators for the period 2000-2007 (table no.3). This period is extremely important for the economic situation of our country because it coincides with the beginning of negotiations and talks concerning Romania's adherence to the EU (the 15th of February 2000), with the obtaining by Romania of the status of functional economy (the year 2004) and the integration in European structures (January 1, 2007).

Table 3: Situation of the principal macroeconomic indicators at the level of the Romanian economy for the period 2000-2007

	UM	2000	2001	2002	2003	2004	2005	2006	2007
ECONOMIC GROWTH AND ASSOCIATED FACTORS									
Value of Gross National Product (current prices)	Mil. lei (RON)	80377,3	116768,7	151475,1	197564,8	246468,8	288047,8	342418	404708,8
Rhythm of growth of GNP	%	2.1	5.7	5	4.9	8.3	4.1	7.7	6
Rhythm of growth of the industrial production	%	7.1	8.4	6	3.1	4.3	2.5	6.9	5.1
Rhythm of growth of the final consume	%	1.4	6.3	2.4	6.9	10.2	8.5	12.6	10.2
Raw formation of fix capital	%	5.5	10.1	8.2	9.2	10.1	13	16.1	28,9

COMMERCE AND INVESTMENTS									
FOB exports	Mil. Euro	11273	12722	14675	15614	18935	22255	25850,5	29380,3
FOB imports	Mil. Euro	13140	16045	17427	19569	24258	30061	40745,8	50882,6
Commercial balance	Mil Euro	-1867	-3323	-2752	-3995	-5323	-7806	14895,3	-21502,3
Direct foreign investments	Mil Euro	1147	1294	1212	1946	5183	5213	9082	7069
Deficit of current account	Mil Euro	-1494	-2488	-1623	-3060	-5098	-6883	-9973	-16872
INFLATION									
IPC(end of the year)	%	40.7	30.3	17.8	14.1	9.3	8.6	4.9	6.57
IPC(mean)	%	45.7	34.5	22.5	15.3	11.9	9.0	6.03	5
LABOUR									
Population in charge	Thousands of people	4623	4619	4568	4591	4420	4704	4575	4717,2
Unemployed	Thousands of people	1007	827	761	659	558	523	460,5	367,8
Rate of unemployment (end of the year)	%	10.5	8.8	8.4	7.4	6.2	5.9	5.2	4.1
EXCHANGE RATE									
RON/USD (end of the year)	-	2.5926	3.1597	3.3500	3.2595	2.9067	3.1078	2.5676	2.4564
RON/USD (mean)	-	2.1693	2.9061	3.3055	3.3200	3.2637	2.9137	2.8090	2.4383
RON/EUR (end of the year)	-	2.4118	2.7881	3.4919	4.1117	3.9663	3.6771	3.3817	3.6102
RON/EUR (mean)	-	1.9956	2.6027	3.1255	3.7556	4.0532	3.6234	3.5245	3.3373

Source: *The reports of the National Bank of Romania* (<http://www.bnr.ro/>) and *the Statistic Yearbooks of Romania during 2000-2007* edited by the National Institute of Statistics (<http://www.insse.ro/>)

The analysis of data from the table and other data we hold shows us some important aspects during the respective period, especially in 2007, regarding the situation of Romania:

- The increase of the GNP in the last two years is an actual fact. We can say that the Romanian people started to work better and harder. In the first semester of 2006 it was recorded the biggest rhythm of growth of the Gross National Product (GNP) from 2001 until now: 7,4%, compared to the same period of the year 2005, according to the National Institute of Statistics. A special support to this performance was brought by the growth of productivity of work. The high level of productivity of work reflects the result of correct restructuring measures. Re-allotment of sources (for example migration of labour from the industrial sector to agriculture; subventions allotted to heavy industry, most from the state) have partially altered the real economic growth. If in 2007, after Romania's adherence to the European Union the Romanian state no longer allotted subventions to the mining sector. Unprofitable mines were closed or will be closed. We are speaking of about 370 localities from 22 counties that are affected from a social and economic point of view. Romania has a strategy of restructuring of mining societies, but besides these mining areas need social and economic regeneration. The main purpose of the project is increasing the capacity of local communities to administrate the economic and socială situation in the area. The project has created

business centers and offered support for new entrepreneurs. There was also a component of microcredits (there were offered approximately 2.500 microcredits with a total value of 5.589.140 dollars) and one for financial stimulants for employers and for reforming of manpower (at the end of the project for 2006 there were reported 6.736 newly created workplaces).

- Although Romania's exports depend to a considerable extent on the process of transformation of raw materials in final products, there was not possible to balance the export and the import. One example in this sense is Romania's commercial deficit in the agriculture and food sector. The degree of coverage of imports by exports maintains at about 80% by year.

- One potential winner of the market liberalization could be the sector of services because of the fact that it is relatively intensive in latest technologies (thus losing its competitiveness) and especially because it includes in a percentage of 60% work force. It is estimated a constant decrease of the competitive disadvantage from the European Union, due to the unitary cost of the Romanian manpower which is much under the European one and due to gain in efficiency through imports of technology. Therefore, services contribute to the sold of the general balance sheet and to the macroeconomic development of the country.

- The domain from which Romania could take much profit is that where exported „products” are „intensive in manpower” while from imports it could win only if the products are „intensive in technology”, but not the goods of final use, that have no impact or significance for Romania's production or exports, but machines and equipment used as inputs for the sectors less intensive in technology.

- In 2004 from the total of manpower employed 30 % were working in services, compared to 31,5% hired in agriculture domains, 25,9% in industry, 10,3 % in the commerce and 2,3% in other domains. Even if at the end of 2007, Romania records the lower rate of unemployment from the entire period analyzed, the truth is that we deal with an under-use of existing manpower and in the context of the future deficit of manpower from the European Union, Romania has great chances to become a source for the attraction of human resources by European industries¹¹ (either directly, through migration of labour, or indirectly, by subcontracting). As a matter of fact, this thing is in progress now and is starting to become a threat to the Romanian manpower market. From the second half of 2007 Romania has also started to face the lack of specialized labour especially in the domain of services. This situation would not be such a great matter in the hypothesis of repatriation the income. The problem lies however elsewhere. More than half of the money sent in the country by the Romanian people go to rural areas. In the stage of the development of Romanian rural from 2007 this repatriation exclusively means consume, so the sums brought back in the country are not invested, decreasing the chances for a real contribution to the formation of GNP.

- Romania succeeded to attract more direct foreign investments than we would have expected according to the relative part it holds from the world gross national product. This means that it makes visible efforts to attract investments and is going through continuous liberalization. In this context Romania offers good perspectives of economic growth, a high level of qualification of manpower, considerable natural resources, capacities in the domain of scientific research, advanced infrastructure and an efficient financial support especially due to massive privatizations from these domains in the past 7 years.

- The summer drought has strongly affected the economic growth, this being placed at the level of 6% and has determined the increase of inflation not only for 2007 but also for 2008

¹¹ We include here in the name of industry the domain of services.

- The first year in the European Union brought some important news for Romanian economy. The most important of these is the great fluctuation of money exchange, after long periods in which the rate of exchange was heading in a single direction. Now during the same year we have witnessed a record-appreciation (at the middle of August 2007, the rate of exchange leu/Euro being of 3,15 lei/Euro) and a record devaluation (at the end of 2007, the rate of exchange leu/Euro being of 3,61 lei/Euro) with a disparity of almost 20%. This was due, on the one hand, to the increase of prices at food because of the drought that affected the agriculture, and on the other hand, to the world economic crisis generated by the fall of real estate markets from the SUA and Great Britain, and to the inflation from the EU.
- The rhythm of growth of imports up the rhythm of growth of exports situated Romania on the 5th place among the EU states in what concerns the extent of the commercial deficit. Moreover, the deficit of current account and the worsening of the perspective of country rating are other factors that reduced the interest of investors for Romania. At the end of January 2008, the rating agency Fitch had to change from „stable” to „negative” Romania’s perspective, as result of the deepening of the deficit of current account, one of the biggest in the world, it is shown in the press communicate quoted by Standard Business.
- The lowering of the interest of investors because of the decline of macroeconomic indicators, in what regards the transactions from the Stock Exchange București, has reduced the mean volume transacted, in November, to 14,2 million Euro compared to 22,8 million Euro in July (according to statements made by chief-economist from East Capital).
- A major problem that Romania faces is corruption. One year after the integration in EU the efforts made by governors to diminish its level seem inefficient. The study presented by the company Transparency International¹² (TI) regarding world corruption, shows that Romania is placed on the first positions, together with countries like Cambodia, Pakistan or region Kosovo. Just like in 2006, in 2007 also the most corrupt institutions in the country are the political parties and the Parliament. The citizens’ perceptions upon corruption in certain sectors are also worrying, a fact which might influence the business environment. Opposite to the neighbouring country, Bulgaria, where corruption manifests at the level of criminality, in Romania acts of corruption are restricted to thefts, frauds, traffic of influence, bribery.
- With all these, in 2007 there were recorded unprecedented growths in almost all domains of activity, only agriculture passed through the worst year after the Revolution, because of the drought, causing unfavourable effects in the food industry.
- The incomes grew in 2007 in a rhythm that places Romania on the second place in the EU and on the fourth place in the world, while sales of cars and goods surpassed any previous expectations and constructions went from record to record, even if it is recorded a deficit of manpower in this sector (of approximately 150.000 workers).

Romania’s integration in the EU has also brought some elements of novelty or in absolute premiere for the Romanian economy, in certain domains such as:

- The first year with *mandatory private pensions*;
- In the *exchange market* the most waited event was the initial public offer Transgaz, other events being represented by the finalization of the privatization of the company Electroputere, the cancellation of the capital increase from Oltchim, the announcement from AVAS of auction sale of Antibiotics Iași. Moreover, the Stock Exchange from Warsaw became shareholder of the Financial and Goods Stock Exchange from Sibiu;

¹² http://www.transparency.org/news_room/latest_news/press_releases_nc/2007

- **The bank domain** was marked by the apparition of new players (Bank of Cyprus, Millennium Bank), the fluctuations of the interest rates policy, the loosening of norms of crediting made by the NBR, the starting of the staff crisis from the bank domain and the fast extension of bank infrastructure;
- The explosion from the **domain of constructions**, in spite of the deficit of manpower;
- The record **car registrations**, 2007 being the year with the most registrations for new cars;
- There were achieved 57 km of **highway** of the 784 km in execution;
- **The agriculture production** more than twice smaller than that from 2006 (from 15,63 million tones of cereals, to 7,11 million tones of cereals because of the drought has had a negative impact upon economy);
- **The fiscal system** went through some changes: the exemption from the payment of the imposit on dividends received from its branches if they are in another member state and fulfill certain conditions, the return to custom payment of the AVT corresponding to imports from extracommunity countries; decrease of custom taxes at electronic and electrocasnic products imported from the countries outside the EU; the introduction of green tax for electronic and electrocasnic products; imposing by 16% of the partake and real estate transactions;
- In the **energy domain** it was finalized the process of liberalization of natural gases and electricity, consumers, including the home ones being able to choose their supplier, according to the advantages of offers; it was put back in function reactor 2 from Cernavodă; the acquisition Shell Gas Romania by Petrom which undertook the business with liquiefid gas; the sale of 75% of shares of The Rompetrol Group to the state company Kaz MunaiGas from Kazakhstan; transaction Petrom-Petromservice in which Petrom undertook the division of oil services from Petromservice.

2007 was a much better year from the economic point of view than it seemed, even if previous periods required great sacrifices in order to integrate our country in the European structures. From now on Romanian economy cannot be separated from the European and the world economy, on the contrary its influences will be stronger. The effects of the American real estate crisis are just at the beginning and 2008 is the year when they will be more visible.

In conclusion, we can say that Romania's adherence to the European Union has led and will further lead to the improvement /attractivity of the Romanian business environment by filtering the economies active on the market.

With all sacrifices made, Romania still has the potential to win from its adherence to the European Union. The competitiveness of services is increasing, this fact being attractive both for internal but especially for external investors, who have another important reason to enter the Romanian market of services: the opening of markets, especially for the members of the European Union, then for the entire world economy due to the many conventions and agreements signed by the EU within the OMC for market liberalization and for the reduction of the level of tariff and nontariff protection.

One of the best directions to follow for Romania in the present moment would be a budget policy that could redirect public expenses to domains that would strengthen the human capital of the country, the infrastructure and administration capacity, while the competition policy should redirect the state support towards the domain of research-

development. There should also be encouraged the risk capital for innovative firms, and the government should provide co-financing for a fund of risk capital in order to support these firms. The best way to support research in the private sector would be indirect financial measures, which are allowed by EU regulations.

However, to achieve these objectives, Romania needs a strategic effort at the national level based on the development of competitive advantages, to create a performant economy. Romania must further open its economy to stimulate the competitiveness based on efficiency, quality and innovation. It is essential that our country be able to generate and maintain more added value on the production chain. This process has to be related to substantial increases in productivity and diversification of the capacities of production, and exports are the most efficient way to sustain social-economic growth.

The European Union has accepted us and is now giving us a helping hand through the infusion, in 2008, of structural funds with favourable effects upon the evolution of economy, including of the money exchange, in spite of the fact that the rate of absorption will probably be low, judging by the experience of the states from the region.

By measure that Romania will be able to recognize the domains benefiting from the adherence and the time to reorient towards these domains is shorter, costs and disadvantages will balance with gains and advantages brought by this process, but it further depends on the Government of Romania, through its organizations in charge, how would it further promote and develop economic, political, legislation reforms with great impact upon the Romanian economic environment.

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www.doingbusiness.org

www.insse.ro – National Institute of Statistics

www.bnr.ro – National Bank of Romania

www.mie.ro – Ministry of European Integration

<http://epp.eurostat.ec.europa.eu/> - statistics of the European Commission

<http://www.infoeuropa.ro/> - Centre of Information of the European Commission in Romania

www.eiu.com/sponsor/ibm - Economist Intelligence Unit Written in co-operation with The IBM Institute for Business Value

Insolvency

It can be seen that the highest bankruptcy rate in 2006 was in **Hungary** (1% in 2006 rapidly decreasing as compared to 2005). Second place goes to **Romania**, and in 2005 it was Croatia. In Romania's case, an increase was registered in the number of companies being under bankruptcy with 45,9% in 2006 as compared to 2005, and this was primarily due to the issuing of the new law for insolvency published in July 2006, law that protects the lenders. The large amount of insolvencies at the end of 2006 was also caused by the long period of time allocated to law suits, actually less than half of the total of insolvencies were lawsuits opened in 2006. In 2007 it was expected to have the same type of evolution, by rapidly increasing with 50% for the companies that would go bankrupt, mainly because of the new legislation combined with the EU one, which would destroy the small companies which have an unstable financial situation. In **Poland**, the rate of registered insolvents is extremely low, almost, but the number of bankruptcy reported does not reflect on the real situation, because all cases of lack of actives are rejected by the court and there are no official records on the number of rejected cases.

There is a small percentage of bankruptcy in **Bulgaria**, fact which is primarily due to the complicated procedure and the duration of bankruptcy in this country.

Except for Romania, the number of bankruptcy for the countries that have joined the EU in 2006 can be observed, fact which underlines the capacity of the new EU economies to overcome the competition on the unique market, invalidating the provisions regarding the number of bankruptcies, especially for the small and intermediate businesses.