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DRIVERS OF BUSINESS SECTOR DEVELOPMENT IN ROMANIA – A REGIONAL ANALYSIS

ABSTRACT

The study presents the evolution of the business sector in recent years, in the economic development *Sud-Est* Region from Romania, which in our opinion, in economic terms and not only, is a representative region for the entire Romania. Following our analysis, we have identified the main determinants for business development, i.e. those that influenced the general economic evolution of the region. These determinants were analysed separately, as internal and external factors. For the purpose of our analysis, we used the main regional and national official documents, which refer to regional economy or to local businesses, such as policies, strategies and master-plans of the state authorities, or the analyses from certain organizations such as the Foreign Investors Council. For the analysis of long data series on the evolution of the main national and regional macro-economic indicators, we used data from the National Institute of Statistics and the National Bank of Romania. The final results present the SWOT analysis of the *Sud-Est* Region in terms of growth, evolution and competitiveness conditions of the business environment, and its development prospects. We have identified the strengths, weaknesses, opportunities and threats. The resulting conclusions provide an opportunity to formulate recommendations for business sector improvement and to create an appropriate framework for better regional economic development policies and strategies.

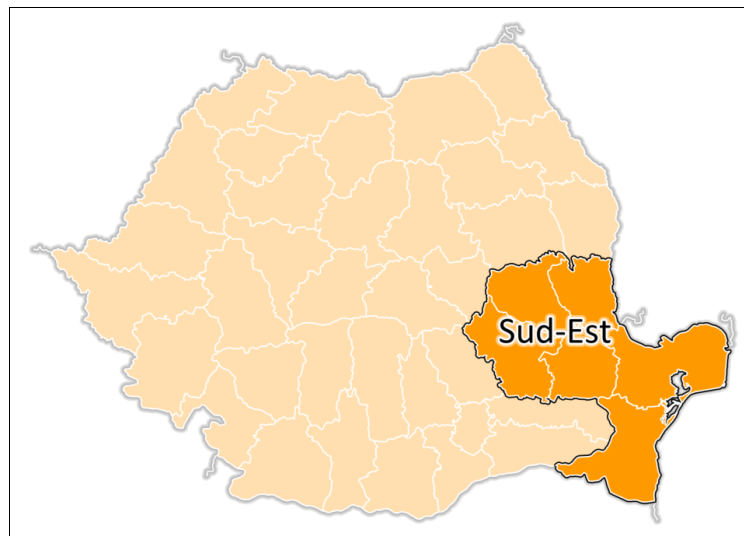
Key words: economic development, business, determinants, SWOT, regional analysis, Romania.

JEL Classification: E22, F18, G01, L26, M21, R11.

1. INTRODUCTION

Romania is divided into 4 macro-regions, 8 economic development regions, 41 administrative territorial units called counties (plus Bucharest) and territorial units at commune, town and municipality level. In this study, we have analysed one of Romania's economic development regions, namely the *Sud-Est* Region, characterized by various physical-geographic conditions, different historical influences, great development potential and international interconnection.

The *Sud-Est* Region (Figure 1) borders on the Nord-Est Region in the north, the Region Centru in the west, the Sud-Muntenia and București-Ilfov regions in the south-west and Moldova Republic, Ukraine and the Black Sea in the east. Its total area sums up 35,762 km², covering 15% of the total area of the country; it is the second largest region among the 8 development regions of Romania. The region has 6 counties in its componency: Brăila, Buzău, Constanța, Galați, Tulcea and Vrancea.



Source: *Sud-Est* Regional Development Agency,
http://www.adrse.ro/Regiunea/Geografie_Demografie.aspx

Figure 1. Economic development of the *Sud-Est* region

The *Sud-Est* Region is part of three historical provinces: Dobrogea, Moldova and Muntenia. All the relief units can be found on its territory: plain (the Danube Plain, Bărăgan Plain), plateau (Dobrogea Plateau), mountains (the Carpathians and the Curvature Sub-Carpathians, the Măcin Mountains). The climate is of continental temperate type, yet with significant variations depending on the relief. In the mountain areas, in the north, we can find a moderate continental climate, in the plain areas there is dry continental climate, while on the Black Sea shore and the Danube Delta, there is a mix of steppe and Pontic climate. The region is crossed by the Danube and borders on the Black Sea coast to the east, with a total length of 245 km. In the area where the Danube flows into the Black Sea, we can find the Danube Delta, which together with the Black Sea, are specific only to this region.

In the year 2015, the region's population accounted for 12.5% of Romania's population, according to the statistical data from the National Institute of Statistics (NIS).

2. MATERIAL AND METHOD

The analysis is based on the main regional and national official documents referring to regional economy and local businesses, such as policies, strategies and business plans of the state authorities. At the same time, for the analysis of the long time series on the evolution of the main national and regional macro-economic indicators, we used the statistical data from NIS, National Bank of Romania (NBR) and the United Nations Conference on Trade and Development (UNCTAD).

The information from the Foreign Investors Council (FIC) and the “White Book” in particular, by which FIC provides evaluations and recommendations for the business sector, were extremely useful. Finally, following the processing of available data, the SWOT analysis of the *Sud-Est* Region is presented in terms of the conditions for business sector growth, for its evolution and competitiveness and its development prospects. The strengths, weaknesses, opportunities and threats have been identified, and on their basis policy recommendations for the economic development were formulated.

3. RESULTS AND DISCUSSIONS

3.1. INTERNAL FACTORS – INVESTMENTS

From the very beginning, we would like to mention that investments generally have three main sources: state budget (national funds), the European Union’s budget (EU funds) and private funds (domestic or foreign). Regardless of the economic sector we refer to, these are the main three forms of investment, in theory and in practice. We must specify that the simplest form of dividing the investments made, bot at national and regional level, is into domestic and foreign investments. That is why, in this chapter, we shall analyse these two forms of investments. At the same time, from our point of view, agriculture and rural area have an important place in the economy of the investigated region, as well as nationwide, and we shall exemplify this by several statistical data.

Generally, a specific problem of the Romanian agricultural sector is its low capitalization. Either we refer to the national level or to the regional level, the situation evolved similarly. Romania is on the penultimate place in the European Union (EU) in terms of farm capitalization. The analysis of net investment indices in agriculture, forestry/hunting and fishing (Table 1), nationwide, reveals a revigoration of investment activities in recent years, either under the impact of investments from own sources or under the impact of projects that used EU funds. This implied investments in construction works or investments in the procurement of machineries and transport means or investments in the creation of new assets or for the development, modernization or reconstruction of the already existing ones.

Table 1

Net investment indices (base year = previous year)

Item	2007 ¹	2008 ²	2009	2010	2011 ³	2012	2013	2014	2015
Agriculture, forestry/ hunting, fishing	20.4	–	8.5	7.1	17.5	8.5	26.27	30.14	21.46

Source: Voicilaş & Gavrilăscu (2017) based on NIS, Tempo on-line data

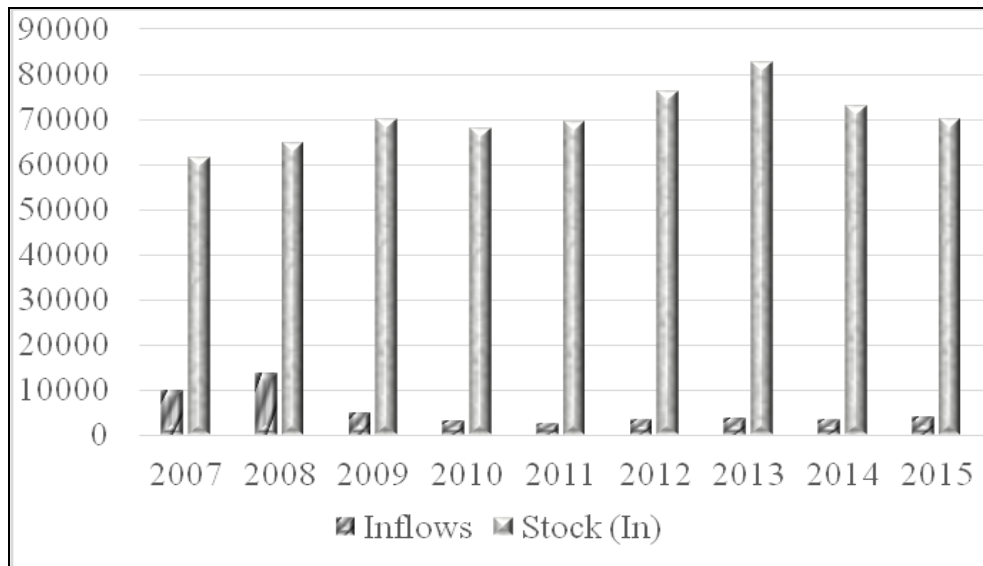
Note: – = missing data; 1 = agriculture, hunting; year 2000 = base year; 2 = agriculture, forestry, fishing; year 2000 = base year; 3 = revised data

The positive evolution of net investments in agriculture is directly related to Romania's accession to the EU and it is the effect of using the structural (and pre-accession funds) by farmers. After many years when agriculture had no access to financing sources, or had a very low access, the EU membership and the access to EU funds have had beneficial effects that contributed to this sector development, compared to the 1990s. At the level of the *Sud-Est* Region, the situation was not different. We must also specify that in the other economic branches, the evolution of investments was similar to that in agriculture, yet with different shares, and there were obvious beneficial effects of Romania's EU membership.

We shall next analyse the evolution of foreign direct investments (FDI), a type of investments that is particularly important in the context of Romania's economy, both at national level and at the level of the *Sud-Est* Region. We include FDI in the category of internal influence factors of economic development, as the foreign investors' decision to invest is based on the conditions of the domestic market and of the domestic business environment in its entirety.

In Romania, in the period after the accession to the EU, the pace of investment growth decreased after the period 2007–2008, when the level of investment flows that entered our country was high, reaching a historic maximum (Figure 2). This reveals that Romania is no longer considered attractive by the foreign investors, to the same extent as when it joined the EU, the main influential factors being the internal political factors. A particularity is that the investment activity in Romania has been affected since 2009, that is one year after the onset of the global crisis, which raises numerous questions as to the real causes of this slowdown, if not all these delayed effects are caused by the failure of the national economy to get fully connected to international flows. In general, FDI evolution in Romania has fluctuated.

For instance, the balance of foreign direct investments was 59,958 million euros at the end of 2013, and the *Sud-Est* Region attracted 4.2%, a decreasing share compared to the period of crisis (7.3% in the year 2008), only the regions Nord-Est and Sud-Vest being less attractive (NBR/NIS, 2014, Foreign direct investments in Romania in the year 2013, ISSN 2247–5095; NBR/NIS, 2009, Foreign direct investments in Romania in the year 2008). Before the accession, in the year 2006, this share was 7.7% (NBR, 2007, *Foreign direct investments in Romania on December 31, 2006*).



Source: based on UNCTAD statistical data

Figure 2: Evolution of FDI stocks and flows (entries) in Romania, 2007–2015 (million USD)

As compared to the previous year, the net FDI flow in Romania in the year 2013 slightly increased (2.7 billion euros), much lower than in the year before the onset of the crisis (2008=9.5 billion euros), yet higher than the minimum of the year 2011 (1.7 billion euros). Out of the net flow, the “greenfield” investments (those investments that create new production capacities from zero) represented only 4%, and the *Sud-Est* Region attracted small amounts compared to other regions. Out of the balance of “greenfield” investments in Romania, the Region *Sud-Est* attracted only 1.5% over time (the lowest share among Romania’s regions at the end of the year 2013), a decline compared to 2008, when the share was 5.7%. In the year 2006, this share was 2.3%.

Hence, the accession to the EU had a positive impact on attracting FDI in the *Sud-Est* Region, yet at a lower rate than in other regions. The economic crisis affected FDI, the flows being much lower. This contributed to the *Sud-Est* Region being less attractive for investors if we have in view “greenfield” FDI (1.5% of the nationwide total).

3.2. EXTERNAL FACTORS

Effects of the economic crisis on the sector of small and medium-sized enterprises in Romania. A few specifications should be made on the global economic crisis that also affected our country. Worldwide, the crisis started in the

year 2008. In Romania, the crisis started one year later and that is why this gap appears compared to the other countries in our analyses. The effects of the crisis were also felt in the year 2010, when other European countries had begun their economic recovery.

The *Sud-Est* Region has about 11% of total small and medium-sized enterprises (SMEs) from Romania. While at national level the number of SMEs remained relatively constant in the last years of the analysis, significant variations were noticed in the *Sud-Est* Region. Thus, the total number of SMEs in the *Sud-Est* Region increased by about 33% from the year 2007 to 2013. Yet in the year after the onset of the crisis (2010), the number of SMEs decreased by about 10%, to increase again by about 50% by the year 2013, out of various reasons, namely: economic recovery, investors' reorganization, change of entrepreneurship classification methodology, legislative changes, etc.

By SME categories, most variations appear in the case of enterprises with 0 to 1–9 employees. These mainly followed the same trend as the total number of SMEs in the region. Differences appear when we analyse the evolution of SMEs with 0 to 1–9 employees on a comparative basis. Thus, in the case of SMEs with 0 employees, their number decreased in the year 2010 (by about 11%), to increase by about 304% in the following year, then a decrease by 67% followed in the year 2013. The SMEs with 1–9 employees had the following evolution: decrease by about 9% in the year 2010, then an increase by 67% in the year 2013 as against 2010, which is a normal situation in the context of economic recovery. The number of SMEs with more than 10 employees remained approximately constant regardless of the year under investigation.

The analysis of the SMEs evolution by the region's component counties reveals some trends and characteristics. Thus, there were great variations mainly in the case of SMEs with 0 and 1–9 employees, with increases up to 75% in the case of certain counties (Brăila; total SMEs; 2013 compared to 2010) or about 83% in the case of SMEs with 0–9 employees (Brăila; 2013 compared to 2010) and decreases up to 11% (Brăila; total SMEs and SMEs with 0–9 employees; 2010 compared to 2009). It results that the SMEs with 0 and 1–9 employees were the most affected by the crisis and its aftermath. Brăila is the most affected county when we consider the variation of the number of SMEs with 0 and 1–9 employees. Except for two counties (Tulcea and Vrancea), all the other counties experienced an increase after the years 2009 and 2010, with the onset of the crisis and its pregnant manifestation, when we analyse the evolution of total SMEs and SMEs with 0–9 employees.

The SMEs with 0 employees have a particular situation. In all the counties, their number decreased or remained constant (Constanța and Tulcea) in the year after the crisis started, then it spectacularly increased up to 378% in the year 2011 (Galați county), to decrease again in the year 2013 by up to 70% (Brăila, Galați) or even 72.5% (Vrancea). It can be assumed that part of the SMEs with 0 employees have been transformed into SMEs with 1–9 employees.

International trade relations – export. NIS data from the year 2012 reveal that the *Sud-Est* Region is poorly represented in terms of exports, compared to the other regions of the country. Only the Nord-Est and Sud-Vest regions have lower values of this indicator.

The analysis of the structure of exports reveals that this region has specialized in the production and export of the following products (Agora Est Consulting, 2014):

- Mineral products (25.03%);
- Common metals and articles thereof (24.49%);
- Transport means and materials (16.60%);
- Textiles and textile articles (9.60%);
- Vegetable products (8.79%).

The study made by Agora Est Consulting revealed that in the year 2012 the *Sud-Est* Region had a high dependence on a relatively small number of exported products. The first three groups of exported products account for more than 65% of the total volume or the exports of the region, while the first five groups of products cumulated over 80%. At the same time, it was mentioned that the processing level of these exports was relatively low.

The analysis by component counties reveals that the volume of exports from Constanța prevails in the entire region. The counties Brăila, Buzău and Galați come next, while the other counties have low shares.

The analysis of the structure of exports by counties reveals that in the counties Brăila, Galați, Tulcea and Vrancea there is a significant dependence on a certain product or on a small number of products (Agora Est Consulting, 2014). For instance, Brăila and Tulcea are highly dependent on “Transport means and materials”, and Galați on “Common metals and articles thereof”. Diversification exists only in the case of Buzău county (Common metals and articles thereof, Textiles and textile articles). In the county Constanța, there is almost 50% dependence on exports for only one category of products (mineral products). This high dependence on a very small number of categories of products reveals, on the one hand, a real production specialization of counties from the Region *Sud-Est* (these products in which each county got specialized are different by counties) but, on the other hand, it may represent a vulnerability element (in the case when the foreign market in which a county got specialized has a significant problem, economic activity problems may arise).

International trade relations – import. The volume of imports reveals that the *Sud-Est* region occupies the antepenultimate position in the ranking by regions, in the year 2012.

The structure of the Region’s imports clearly reveals the dependence on certain complementing imports that are subsequently found in the exports of the region (Agora Est Consulting, 2014):

- Mineral products (54.09%);
- Electrical machinery and equipment, sound and image recorders or reproducers (11.47%);
- Common metals and articles thereof (9.15%);
- Chemical products (5.43%);
- Textiles and textile articles (4.41%).

The analysis of the structure of imports also reveals a strong dependence on a certain category of complementing imports, e.g. mineral products (54.09% of total imports of the region), under the background of industries operating in the region (steel industry for example). The low industrial diversification in the region is also reflected in the structure of imports of the economic operators in this region.

The largest imports are found in those counties with a higher economic activity intensity, in Constanţa and Galaţi (77%). Except for the counties Brăila and Buzău, the other counties have a higher dependence on certain categories of imports: Constanţa and Galaţi significantly depend on the import of mineral products (yet Galaţi to a significantly lower extent than Constanţa), Tulcea depends on the import of electrical machinery and equipment and Vrancea on the import of textiles and textile articles.

As regards the exports/imports coverage ratio, the *Sud-Est* Region has a relatively unbalanced development. There is a deficit of the balance of trade, which reveals that the region does not obtain sufficient foreign currency resources from exports for its imports coverage (complementing imports or not). The trade deficit of this region is the highest: 121% (Agora Est Consulting, 2014); after that of the Region Bucureşti-Ilfov, with imports far exceeding exports, i.e. an unbalanced trade balance.

Impact of EU enlargement. Before the accession to the EU, the number of firms and SMEs increased in the region, yet it decreased as share in nationwide total, from 13% in the year 2000 to 11.88% in 2006 (Regional Development Agency *Sud-Est*, 2009). In the year before the accession (2006), 99.63% of this number was represented by SMEs (the classification at that moment, with up to 250 employees). Most SMEs operated in the tertiary sector (services) and here mainly in trade (49.66%).

If we take into consideration the current SME classification, the number of SMEs with 0 and 1–9 employees in the year 2007 was 52.673, mainly in trade (51.6%), real estate transactions, leasing and services provided to enterprises (13.6%) and processing industry (8.5%). At the same time, the turnover increased at regional level: 219% in the year 2006 as compared to 2002 (Regional Development Agency *Sud-Est*, 2010), yet it decreased as share in nationwide total. The density of enterprises (units/1000 inhabitants) is slightly below the national average, but at about half of the average density of enterprises in EU-28. The most densely populated county (and the only one above the national average) was Constanţa, while Vrancea had the lowest density. The low accessibility and mobility levels and the distance to the retail markets represent one of the reasons

that constrain the entrepreneurial initiative in the rural areas, significant disparities existing in this respect between the rural and the urban areas. The highest share of firms in the rural area is noticed in Buzău and Vrancea, which are the most rural counties in the region. Constanța is at the opposite pole, as the most urbanized county (Regional Development Agency *Sud-Est*, 2010).

Since the accession year, the effects of this process were also felt at regional level, which produced structural changes of the business environment, as it will be next mentioned. The total number of SMEs slightly increased in the region, until the first signs of the economic crisis emerged, in the year 2009 (with a relative stagnation in all the counties of the region), in a dynamics lower than in other regions from Romania, yet more accelerated than in the regions Nord-Est and Sud-Vest, either we refer to the total number of SMEs or only to the SMEs with 0 and 1–9 employees or with more than 10 employees. These trends were also noticed in all component counties, with no exception. This development of SMEs, at least by number of existing firms, reveals the benefits of EU membership. Only the onset of the global crisis stopped this logical development after the accession to the EU.

3.3. SWOT ANALYSIS

On the basis of official documents used and of the analysed statistical data, we identified the the main strengths, weaknesses, opportunities and threats of the *Sud-Est* Region, in terms of investments and business environment conditions. These are briefly presented in Table 2.

Table 2

SWOT analysis of the *Sud-Est* Region

Strengths	Weaknesses
<ul style="list-style-type: none"> – EU membership had a positive influence on attracting FDI – Over a long period of time (2000–2009), the business environment developed in the region – The number of SMEs with more than 10 employees remained approximately constant, both after the accession and after the onset of crisis – Part of SMEs with 0 employees became SMEs with 1–9 employees after the crisis – Constanța is the main exporting county – Real specialization in production of the region's counties – After the accession, the number of firms and SMEs increased in the region, most SMEs operating in the tertiary sector (services), mainly in trade 	<ul style="list-style-type: none"> – The economic crisis impacted FDI evolution – The <i>Sud-Est</i> Region was the least attractive for investors if we consider “greenfield” FDI – Low performance in innovation as a result of a national RDI system only in an early stage – Since 2010, the business environment has devolved in the region – The number of SMEs strongly varied – The SMEs with 0 and 1–9 employees were mostly affected by the crisis – Brăila is the most affected county in the region – The region is poorly represented in the case of exports – High dependence on a relatively low number of exported products, mainly in Brăila, Galați, Tulcea and Vrancea – The processing level of exports is relatively low

Table 2 (continued)

<ul style="list-style-type: none"> – After the accession, the turnover increased 	<ul style="list-style-type: none"> – Vulnerability to external markets – Dependence on certain complementing imports, mainly mineral products – Low industrial diversification – The development of the region is relatively unbalanced in terms of exports/imports coverage, with a deficit of trade balance, which reveals that the region does not get enough foreign currency from exports to cover its imports – The share of the number of firms and SMEs in nationwide total decreased after the accession – The share of regional turnover in Romania total had a decreasing trend after the accession – Vrancea had the lowest density – The firms are not consolidated in terms of number and technology – SMEs from Romania and the region are not prepared enough to successfully compete on the European single market
Opportunities	Threats
<ul style="list-style-type: none"> – Diverse activity types in the region (fertile soils, the Danube, the Danube Delta, ore fields, wine farming) – Different natural conditions in the region that can provide economic-employment opportunities by the diversification of economic activities – The underemployment in agriculture can release labour for competitive economic activities – Cross-border cooperation (Bulgaria, Ukraine, Moldova Republic) 	<ul style="list-style-type: none"> – The <i>Sud-Est</i> Region has a negative migration, and if the process continues, the region is under risk of further competitiveness decrease and growth potential decrease in the region – Migration of young population and labour – The low accessibility and mobility levels and the distance to retail markets constrain the entrepreneurial initiative in the rural areas – SME dependence on the domestic market – Proper exploitation of the Danube, the Danube Delta and the Black Sea resources

4. CONCLUSIONS

We can draw the conclusion that for a long period of time (from 2000 to 2009), the business sector developed in the *Sud-Est* Region, either as a result of the beginning of accession negotiations or following the planning of accession through the “Road Map” on the year 2004, or by the act of accession itself. Yet this development was not similar, in terms of performance, to that from the other regions from Romania, numerous factors with a negative action being involved. These added to the factors generated by the crisis.

For example, the “Report of the Post-Privatization Foundation on the SME sector from Romania, 2013 edition (Synthesis), (<http://mcr.doingbusiness.ro/>),

highlights a series of vulnerabilities of the SMEs from Romania, which are not sufficiently prepared to compete with success on the European single market. The SMEs were dependent on the domestic market, affected by the severe decline of the national economy in the years 2009–2010, with effects that spread to the business environment, by population's consumption decrease and the negative evolutions of the main macro-economic indicators. The unfavourable general context influenced both the performance of active SMEs and the demographic evolution of businesses. The SME sector in Romania is not a solid and competitive sector, the business base being not consolidated in terms of number of enterprises or technological capacity. The evaluations of the SMEs from the EU by the European Commission in 2012 reveal the dramatic impact of the crisis on the SMEs from Romania; the Romanian SMEs, after a continuous growth for 10 years, had the greatest decline in the EU in terms of number of employees and value added. In terms of innovation, the SMEs from Romania also have modest results; according to the same evaluators, the lowest percentages of innovating SMEs are found in the economies from Eastern Europe: Latvia, Poland, Hungary, Bulgaria and Romania.

Last but not least, the direct correlation between population level, share of SMEs and SME density is respected in the case of three regions that have medium values of these indicators. This is the case of the *Sud-Est* Region, to which the regions Nord-Vest and Centru are added (year 2011).

At the same time, we can notice that this study complements and strengthens the analyses made by the Foreign Investors Council from Romania, which are periodically published in the report "White Book". The recommendations specified in our study and which we hope will come to support the authorities in regulating the business relationships, improving the investment climate and streamlining the investment activities refer to: good governance, taxation system, judicial system, environment, energy sector, agriculture, EU finance, labour market, business ethics, infrastructure. It is without doubt that the implementation of these recommendations would have as main effects increasing investments, economic growth and diminution of the development gaps between the economic regions.

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