THE IMPACT OF GLOBALIZATION ON THE INCREASE OF COMPETITIVENESS OF CENTRAL AND EASTERN EUROPEAN COUNTRIES. THE ROMANIAN CASE

DANIELA HARANGUS, DANA-CODRUTA DUDA-DAIANU
“TIBISCUS” UNIVERSITY FROM TIMISOARA, 1/A DALIEI STREET, TIMISOARA, ROMANIA,
cddaianu@yahoo.com, danaharangus@yahoo.comI

Abstract: *Under the conditions of globalization, due to the accelerating pace of the development of trade between countries, foreign trade has become one of the basic factors of the economic growth. The competitive environment is as well crucial for creating and maintaining competitive advantages of the companies, an opportunity to highlight that the respective advantages are localized at their level: the international performance of the companies, expressed in exports and FDI, represents the competitive advantage of a country. The purpose of the paper is to determine the impact of globalization on the increase of competitiveness of the countries in Central and Eastern Europe by means of direct foreign investment and trade liberalization.*

Key words: *globalization, competitiveness, degree of integration, index of economic globalization*

JEL classification: *O11, O52, F2, F5*

1. Assessment of the degree of integration into the global economy and the comparative advantage of the countries of Central and Eastern Europe

The investigations regarding the globalization of a country reflect its participation in the international economic relations, the extension of interconnections between the economy of that country and the world. Some authors as Horobet A., Munteanu, C., A. Mazilu propose a few indicators to measure the degree of globalization. The globalization means forging economic and other relations between countries, through the share of exports in GDP, the volume of inflows and outflows of foreign direct and portfolio investment, the size of the input-output flows in the form of royalty payments associated with the international transfer of technology[11]:

- share of exports in GDP;
- volume of inflows and outflows of foreign direct and portfolio investment;
- size of inflows - outflows as royalty payments associated with international transfer of technology.

Many *quantitative indicators* were developed for the assessment of a state’s involvement in the global system. These indicators are based on the existing quantitative research within the international relations, international political economy, geography and sociology, and the official statistics. The assessment of the degree of integration into the global economy consists in the estimation of the integration in the production systems and the global consumption, namely, the degree of economic liberalization through the two main vectors:

- The role of foreign trade;
- Foreign investments flows and the role of transnational corporations in the national economy.

[1]Horobeţ A., Mazilu, A., Munteanu, C. *International Investment Marketing*. Bucharest: *Economica,* 2002

Table 4.1.: *Indicators for assessing the degree of integration into the global economy*

Crt. No.	*Name*	*Formula*
1.	Trade openness: share of external trade in goods and services in the total GDP	O_{et} = (Exp + Imp)/GDPt
2.	Trade openness in goods; the share external trade in goods in the GDP generated by the goods sector	O_{etg}=(Exp+Imp)/GDPg
3.	Share of exports of services in the exports of goods	$S_{s/g}=Exp_s/Exp_g$
4.	Dynamics of outward orientation of economy: the difference between real growth of foreign trade and real GDP growth comparing with year t-1	E_{ext}=[(Expt+Impt):(Expt-1)]/[GDPt]
5.	Share of gross private capital flows to GDP	SGPCF=GPCF/GDP
6.	The degree of integration into global production system: the share of direct investment flows (inflows + flow) in GDP	PISD=ISD/GDP

Source: *Bari I, The Globalization of the Economy. Bucharest: Economica Publishing House, 2005*

The standardization of these methods for estimating the degree of the economy globalization is based on the reporting of trade flows and capital flows to GDP. Foreign trade of goods is reported both in the total GDP and the GDP of the goods sector.

Trade in services constitutes important characteristic elements of increasing importance for global integration. Using the **actual reporting of foreign trade in GDP dynamics**, we can identify the economies that have been more profoundly integrated into the global economy through liberalization of foreign trade policies, reducing barriers to foreign investment, exploitation of comparative advantage due to skilled and inexpensive labour.

The globalization of trade implies the existence of global markets for the sale of goods and services traded. The production of various countries and their rate are influenced by the specific differences between countries.

Private capital flows include both the portfolio investment and the foreign direct investment recorded in the balance of foreign payments. Foreign direct investment includes equity equivalent shares, reinvested profits and other long-term capital investment. IMF defines foreign direct investment as "investment made to acquire a lasting interest in an enterprise operating in economies other than the investor, the investor's purpose being to have a decisive say in the management of the company. FDI is an approximate measure of the global production networks, because it includes only those links between companies, based on direct investment, as opposed to subcontracting or similar arrangements without striking the size of investment in the multinational production, as only 25% of the total direct investments are placed in the production abroad.

So far we have discussed about the indicators developed by the *Organization for the Economic Cooperation and Development*, as well as those proposed by Ioan Bari in the book "The Globalization of the Economy"; we will continue with the **Kearney synthetic index of economic globalization**. More than 60 world countries are classified according to the economic globalization index. This indicator contains four main sub-groups from the domain of the global economic integration: [2]

[2] Bari, I. *The Globalization of the Economy*. Bucharest: Economica. 2001

1. Economic performance, which in its turn includes:
1. Share of foreign trade in GDP;
2. Share of portfolio investment (inflows + flow) in annual GDP
3. Share of annual FDI flows in GDP;
4. The share of revenue generated by investment (inflows + annual flow).

2. Performance of the standard of living of the population
1. Minutes of international phone-calls per capita;
2. Share of international tourists (inflows + flow) in the total population;
3. International transfers of personal funds.

3. Technology performance
1. Share of Internet users in the population;
2. Share of Internet providers in the total population;
3. The number of Internet servers with high safety standards.

4. Policy performance
1. The number of international organizations the country considered is a member;
2. Participation in UN peacekeeping operations
- The share of personnel involved in GDP
- The share of financial contribution to GDP
3. Number of ratified international treaties in force;
4. Share of government transfers to GDP.

The methodology of calculation of this index is based on the reporting of the above indicators to GDP or population, which contributes to the assessment of the degree of globalization of the economy depending on the individual capacity of the analysed country, and not its absolute contribution to the global economic integration. *This study examines the degree of globalization of the 62 states*. According to this indicator, Hungary has climbed three places, being placed at number 20, in 2006, in the top of world countries, but in the top of the countries of Central and Eastern Europe it ranks third, after the Czech Republic and Slovenia.

From a statistical viewpoint it was observed that there is a correlation between the size of the country and the degree of globalization, although the hypothesis that small countries have stronger inclinations towards globalization prevails.

In addition to those indicators, UNCTAD experts have determined a so-called degree of globalization or transnationalization of a country through the Transnationality Index[3]. This index has been created and developed in order to compare the degree of transnationalization of countries in which TNCs operate. With its help, the business transnationalization of host countries is being measured in real terms, taking into account both the productive potential created by the stock of FDI attracted, and the results of these investments. This index is created on the basis of two variables related to FDI, attracted by the host country and other two countries aiming at operations of foreign corporations in those countries. The index is determined as the average of the following four reports:

- volume of attracted FDI/gross fixed capital;
- total stock of FDI attracted/GDP;
- value added of foreign affiliates/GDP;
- the employment generated by foreign affiliates/total employment level.

Analyzing the indicators proposed by the above mentioned experts, it can be concluded that there is a quantitative link between the indicators mentioned and the degree of globalization of a country. Observing the indicators taken into account, it becomes clear that mostly foreign investments influence the degree of the globalization

[3] World Investement Report 2005, *Transnational Corporations and The Internationalization of R&D*, UNCTAD

of a country. Thus, it is appropriate to determine the model that would assess the theoretic effect of foreign investment on the globalization of the economy.

Based on the current needs, it is essential to have *an effective strategy of the economic integration into the global economy*, which is manifested in international relations by enhancing the competitive advantages of its industries in competition with similar behaviour of other countries[4]. Undoubtedly, the increase of competitiveness implies the use of highly technical equipment in the technological processes and the increased productivity, which requires the operators to use either the purchase of imported equipment or to establish contractual investment relationships with some foreign partners, which contribute to bringing these machines as a contribution to that investment. Investments are an important means, primarily in the growth and improvement of fixed capital which, ultimately, with other natural resources, shape and prefigure the structural specifics of an economy. Based on this, an improvement of the economic structure can be provided as well as a continuous improvement in the proportions between the traditional industries and those with an important role in promoting technical progress, a closer correlation between modernization and expansion of the existing fixed assets.

2. The Position of Romania in the 2008-2009 Global Competitiveness Report Prepared by the World Economic Forum 2008-2009

As regards the position of Romania[5] in the 2008-2009 Global Competitiveness Report prepared by the World Economic Forum 2008-2009, we want to emphasize the following:

• *Within the global index of competitiveness, Romania ranks 68 out of 131 countries*, a slight increase from the 74th place a year before. After the score obtained on a scale from 1 (worst) to 7 (the best), Romania recorded 4.1 points, in comparison with 4.0 points last year. Romania remains second last EU country in terms of competitiveness, ahead only of Bulgaria (which ranks 76).

• *For the first time since Romania has appeared in this report (2001), the biggest problem for the business environment in Romania is the instability of the public policies (13.2% of the responses of managers).* A year ago the instability of the public policies was mentioned only on the 7th place among the obstacles for business. In 2008, the other important barriers were: the level of taxation (12.8%), the degree of complexity of the tax (11.2%), the bureaucracy of the public administration (10.8%), and inadequate infrastructure (9.7%).

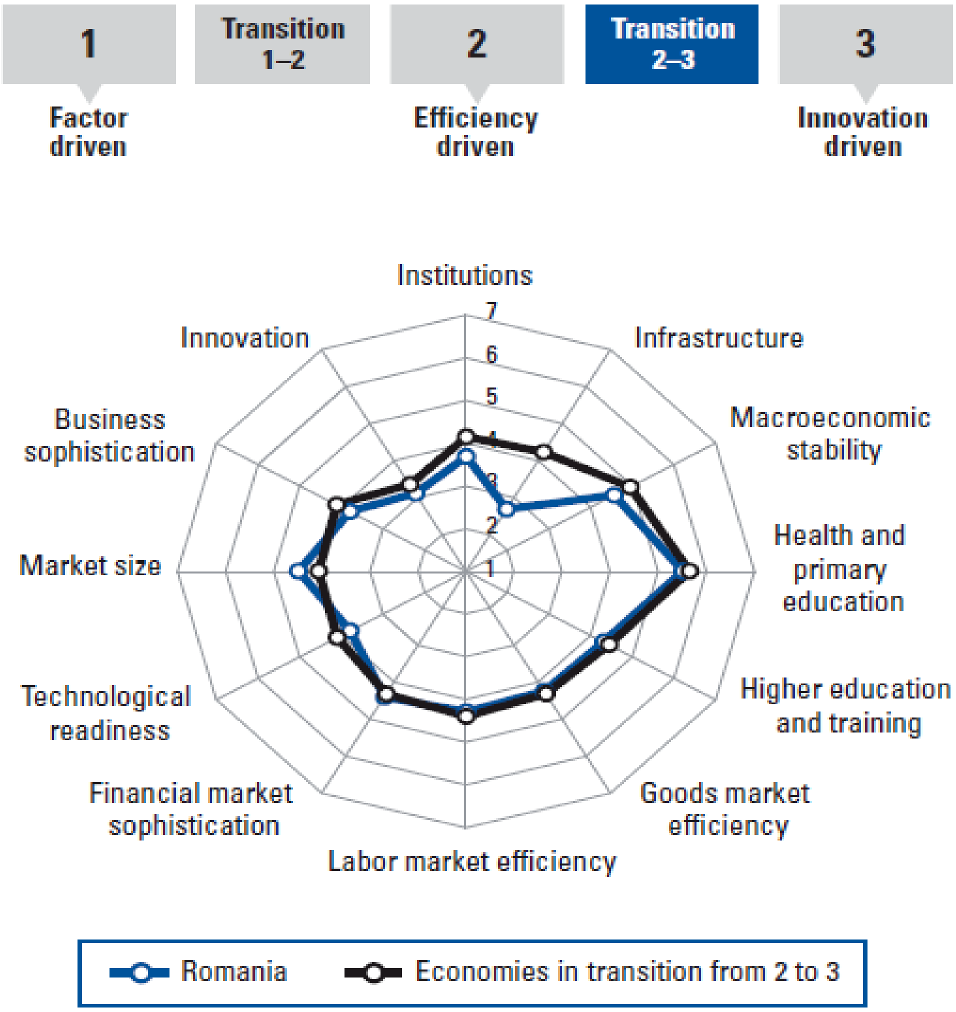
• *Romania ranks 76 at macroeconomic stability - eight places increase ahead Portugal. However, a number of indicators have deteriorated, such as the savings rate - instead of 104, three places decrease, the budget deficit - 98th place, 16 places decrease, the inflation rate – 89th place, 26 places decrease.*

• *Romania ranks 105 at infrastructure - five positions decrease, being on the last place among EU countries*. Regarding the quality of roads, Romania is on the 126th place out of 131 countries. As it is however difficult to argue that Romania is placed after countries like Zimbabwe (88th place) and Burkina Faso (104th place), the comparison with other European countries is more relevant. Germany and France are at the top two places, Hungary on 57, Bulgaria on 95, Poland on 96.

---

[4] Zaman, Gh., Vălceanu, Gr., The Investments in Romanian Economy, in Probleme Economice (Economic Problems), nr. 25/1998

[5] www.wef.org, www.gea.org.ro

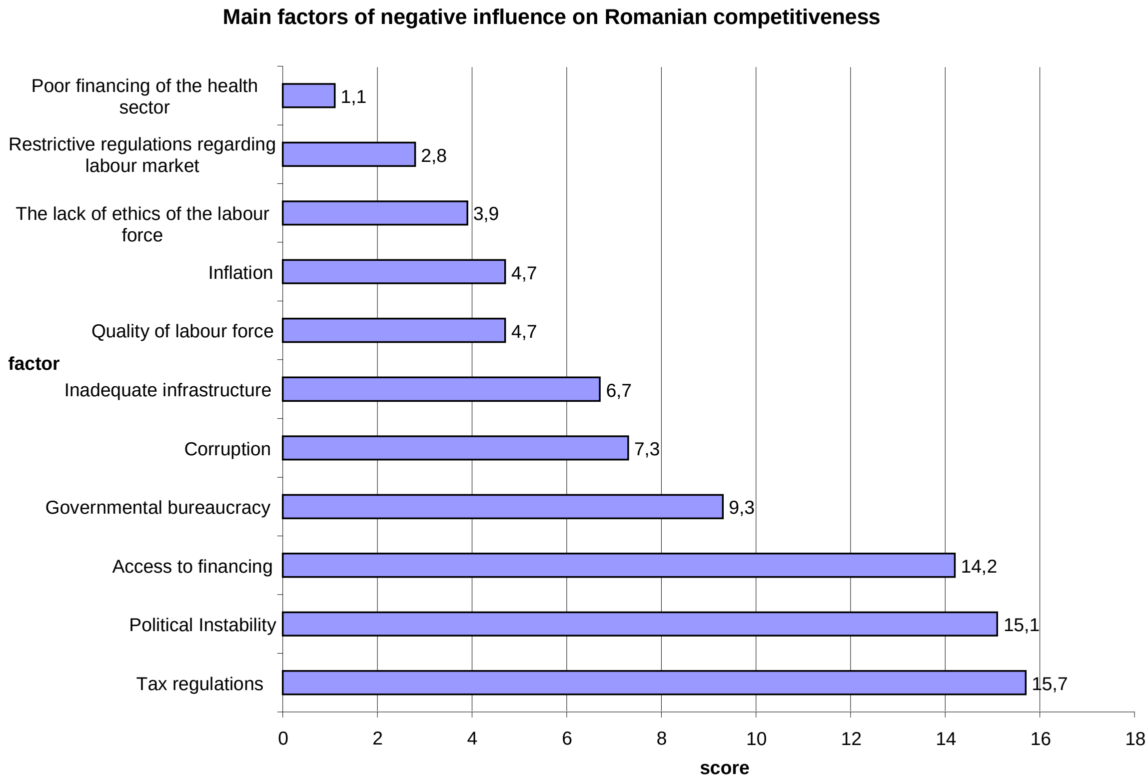


Source: *World Economic Forum, 2009*

• *Romania ranks 124 at transparent public policies, 113 to favouritism in government decisions, 111 at the waste of public money - which confirms that the way the policies are made public represents the greatest competitive disadvantage of Romania today.*

• *Romania has recorded progress in terms of technological indicators*, notably regarding the number of internet users (23rd place, 28 places increase) and mobile telephony (50th place), and some progress in private spending on research (74th place, 15 places increase) and the intensity of local competition (82nd place, 4 places increase).

• *Romania has made significant setbacks in the labour market indicators***,** especially regarding the flexible wage policy (81st place, 44 places decrease), the dismissal costs (14th place, 9 places decrease) and the link between wages and productivity (72nd place, 13 places decrease).



3. Conclusions

According to the investigations on the impact of globalization on the competitiveness of Central and Eastern European countries, the following can be concluded:

1. Competitiveness is at present equally important for all countries. According to the rating compiled by the World Economic Forum, Romania is placed at the level of the African countries as a result of several obstacles: poor access to finances, increased inflation, obsolete technologies and lack of cooperation of the traders with the state, etc. Enhancing national economic competitiveness is one of the five strategic priorities of Romania, stated in the draft concept of the National Development Plan. When it comes to this priority, we can state that Romania must make significant efforts to increase competitiveness and improve the image of the country.

2. Regarding the results of the study referring to conceptual issues, we would like to summarize by saying that: competitiveness represents a country's the ability to create a favourable environment for the development of domestic enterprises, using low-cost strategies, differentiation, substitution, leading to increased work productivity, creating opportunities to penetrate foreign markets and forming thus added value, by providing citizens with high pay employment, which increases the purchasing power, contributing to the economic growth and to the establishment of a balanced social environment.

3. Competitive transition involves the promotion of small and medium enterprises, the increase of the corporate efficiency at the level of the company and the upgrading of physical infrastructure. In the short term, the main result of these improvements will be the consolidation of the innovative and technological absorption capacity. In the long term, it will lead to the consolidation of their abilities for innovative technological development, which can be made with the help of clusters.

4. Cluster policy allows the consideration of local development issues and conducting programs addressing the speed of development and raising the competitiveness of the companies. An important role in cluster development is occupied by state policy to enhance knowledge, skills and development of entrepreneurial culture,

particularly among small and medium enterprises. Additionally, at the catalyst activity of inter-company relations and university-industry linkages, cluster processes can lead small and medium enterprises to develop their internal skills. At the same time, specific government programs are needed to support these efforts.

5. The experience of Central and Eastern European countries shows that it is possible to become competitive through such efforts as creating a favourable competitive environment, a viable regulatory environment; development of aggression (by making large investments abroad and massive exports) to the global market and at the same time ensuring internal attractiveness for foreign direct investment; focus on quality, speed and transparency of government and administrative policies; maintenance of an economic correlation between the level of wages, labour productivity and taxation; making investments in innovation research-development; continuous training of the workforce and balancing the economy based on proximity and globalization to ensure the creation of a high level of prosperity that would increase competitiveness.

6. The main factors that have contributed to the economic recovery and increasing the competitiveness of Central and Eastern European countries are the direct foreign investments. Analysing FDI flows in the Czech Republic, Poland and Romania, we find that they have been 36-38% of total European Union FDI. The flow of FDI in 2007, recorded in some countries a slower pace than in previous years. FDI returned to a level that is still higher than at the beginning of the millennium. Poland has had the superiority in attracting FDI, with some decrease in 2002-2003, followed by Czech Republic. Since 2003, Romania has recorded an increase of FDI, with the exception of 2007, when the volume decreased.

7. The competitive process shows the interdependence between internal and external economic relations. This is often limited to a comparison of global and sectorial performance of nations based on trade. Foreign trade is one of the most important indicators of a country's international competitiveness. It reflects the areas in which the products of an economy are competitive. The direct link between increased exports and economic growth is conclusive.

8. A functional dependence is identified between Romania's competitiveness and macroeconomic indicators analyzed; the GDP shows the competitiveness of the country, being in a functional relationship to the total stock of FDI attracted to the GDP, reflecting the attractiveness of the country, attracting FDI. The largest role in increasing the competitiveness plays the stock of FDI, followed by exports that are dependent on the first indicator. The interdependence *FDI-competitiveness* in Romania shows that FDI has a positive influence on the competitiveness only when investments are focused on the real sector, productive, export-oriented production, promoting the policy to attract FDI aimed at the national interests and priorities.

The export competitiveness is in a functional dependence on FDI stock. This orientation requires the adoption of national policies to support the industries and exporting industries by governmental support for the exporting companies, using other levers in the form of tax breaks, subsidies, licenses, etc..

4. Several recommendations for improving competitiveness

Finally, we want to make several recommendations for improving competitiveness:

- Currently, the state economic policy should be directed towards the efforts of the companies to create a favourable investment environment providing permanent facilities and promoting investment opportunities, ensuring access to investors in free economic zones, industrial and innovation parks etc.
- The government, the Parliament, the society and the business environment in Romania should join forces in promoting a favourable image of the country, strengthening fair competition between companies, which would strengthen the

competitiveness of small and medium enterprises, and stimulating growth of their number at a high level of globalization;

- The Strategy of Romania should focus on exports, attracting foreign investment, improving the quality of products at European standards and on integration into the European community;
- Activation and increase of liability of the public and private structures in attracting FDI with the aim to increase the competitiveness of productive sectors, services and infrastructure;
- The state's support for creation and development of small and medium enterprises, particularly by increasing access to information, education, consulting services and the integration of small and medium-sized component in the regional development programs and the increase of the competitive ability;
- Establishing an ongoing dialogue between the state, national associations of the entrepreneurs, producers, small and medium enterprises and research and development institutions;
- The governmental structures must identify the potential niches for competitive advantage, including the need for a guide of activities that contribute to the high added value, stable reorientation of production towards the EU;
- The scientific and academic communities, the state should develop research and innovation by encouraging the participation of institutions in this research and development area and the integration in European and international research programmes;
- The government should promote research and innovation through science and technology parks, promote cluster in innovation incubators and subsequent implementation of scientific and technological research results in national and foreign economic activity;
- The Ministry of Economy in Romania should help develop all types of clusters: regional, industrial, vertical, etc. in cooperation with the academia;
- Development of a mechanism for continuous qualification improvement of the work force in accordance with scientific and technical progress;
- The prosperity of nations (countries) requires competitiveness on the international markets and the issue of the economic competitiveness, the acquisition and maintenance of competitive advantages has become a very curren priority for Romania.

REFERENCES

1. Horobet A., Mazilu, A., Munteanu, C., *International Investment Marketing*. Bucharest: Economica, 2002
2. Krugman, P., *La Mondialisation n'est pas coupable*. Paris: La Decouverte, 1998
3. *Manual for the assessment of regional competitiveness*, in the GOF project "Romania - Building Regional Assessment Capacity in Line with Lisbon Agenda", Bucharest: 2007
4. *Manual for the assessment of regional competitiveness*/Group of Applied Economics 2007
5. Marin, D., *Globalization and its expressions*, Bucharest Publishing House: 2004
6. Moldovanu D., Petru Maleru P., *The Analysis of Foreign Trade of CEE Countries with the Implementation of International Specialization Indices*. No. 3, 2009
7. Zygmund Bauman, *Globalization and its effects*, Bucharest 2000
8. www.europa.eu.int
9. www.weforum.org
10. www.gea.org.ro