

# Romania – An Attractive Market for Foreign Investors

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**Abstract** General information about Romania: form of government: republic; parliament: bicameral (Deputy Chambers and Senate); flag: three colors, in the following order from top to bottom: blue, yellow and red; coat of arms of Romania: a golden eagle holding in its claws a scepter and a sword, symbol of the historical provinces Walachia, Moldova, Transylvania, Banat and Dobrogea; geographical localization: south-eastern Europe; neighbors: Bulgaria, Serbia, Hungary, Moldova, Ukraine; surface: 238.391 square kilometers (12th largest in Europe and 81st in the world); official language: Romanian; time: GMT+2h; currency: Romanian leu (RON); capital: Bucharest (1.9 million inhabitants); administration: 42 districts (including Bucharest), 319 cities, 2851 villages; population: 21.5 inhabitants (June 2007); population density: 91 inhabitants/square km; population structure: 89.5% Romanians, 6.6% Hungarians, 3.9% other nationalities.

The paper presents the advantages and disadvantages of the Romanian demographical, economic, technological, political and juridical environment for potential investors.

## I. INTRODUCTION

It is important for an investor to have knowledge of the macro and micro environment in which he/she wants to promote his/her business.

The micro environment consists of the participants to the nearest company environment and it affects the company's abilities to satisfy the clients' requirements.

The macro environment includes social forces with a wide range of action, which affect all participants to the company's environment.

It is important to make a distinction between the two components of the environment in what concerns organizing the company environment "supervision". While the micro environment can be directly supervised and is relatively controllable and susceptible to being modified by concentrated actions, the elements of the macro environment are uncontrollable, cannot be influenced, but need to be known so that the company can adapt to their configuration. Obviously there are strong correlations between the two environment components and in order to understand the entire management and activity mechanism of a company the knowledge of the company environment is absolutely necessary. Therefore, a strict and continuous supervision of inside and outside influence factors is needed, as modifications in their structure or evolution can have a profound impact of the company's activity.

## II. THE MARKETING MACRO ENVIRONMENT

The marketing environment includes the external forces

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that influence directly or indirectly the company's objectives, plans, procedures, activities and their results, playing an extremely important role in the company's existence. This is the reason why specialists consider that environmental analysis and running a process of systematical identification of major outside changes is essential to making a realistic prognosis on the impact they can have on the organization.

The marketing vision of the modern company emphasizes the orientation to the outside, as the company has to produce and put on the market only that which is really demanded by customers and can be sold. In fact, the company's entire activity is customer-oriented and depends on the customers' demands and needs. This requires studying the company in its environment, synchronizing its activity with the dynamism, the shapes and the evolution of the environment [3].

The marketing macro environment includes the external forces that act upon the company and its micro environment, stimulating or obstructing activity. These forces are grouped into the demographic environment, the economic environment, the technologic environment, the political and juridical environment, the socio-cultural environment and the natural environment [2]. These factors exert a permanent influence (of variable intensity) on the company's activities, and they are in a constant change.

### 2.1 The Natural Environment

The natural environment is part of the general setting of the company's activity, offering opportunities and establishing constraints to its development. The product price is influenced by the cost of the raw materials and energy, by the cost of transportation and, lately, by the expenses with pollution reduction.

Romania is situated in South Eastern Europe, in the northern Balcanic Peninsula, on the eastern side of the Black Sea. The country's geo-strategic setting offers investors unexpected opportunities. Located on the Black Sea coast, Constanța harbor is a naval transportation node not only for the Black Sea, but also for the North Sea through the Danube-Main-Rin channel. The railway transportation network is wide and an economy boost is expected when the European standard highway network will be complete.

Moreover, by its position between Central Europe, the Balcans and Rusia, Romania is situated at the junction of three future European transportation routes: passage 4, 7 and 9. This will enable an easy access to former Soviet Union countries, to Balcanic countries and to Eastern Asia countries.

### 2.2 The Economic Environment

The economic environment aggregates the economic factors that influence the company's ability to compete in its field of activity. It also includes the customers' availability and possibility of buying various goods and services [1]. Among the factors that influence the customers' budget is the

current income, the available income, the prices, the tendency to save money or to consumption and the credit policy.

The growing rate of a country's economy has an important impact on the marketing efforts of a company – a high growing rate indicates a strong economy and, therefore, a high marketing potential.

As the characteristics of the economic environment have a direct and strong effect on the company's activity (especially on sales), the company is interested in having a clear image of the market and the economy. That is why reports on the economic background are elaborated and management tries to foresee the changes that may turn out.

With 21.5 million inhabitants, Romania is one of the largest markets in Central and Eastern Europe. Following the fulfillment of the economic objectives established in Copenhagen, the gaining of the statute of Functional Market Economy and the economic growth of the past years, Romania has raised foreign investors' interest. Several international banks have set up branches and agencies here, which favor at their turn the flow of foreign investments.

Romania's macro-economic state of the end of 2007 and the beginning of 2008 has been characterized by an intense fluctuation of the local currency compared to international currencies. In the last 6 months the Romanian leu has reached spectacular maximums and minimums, warning about the economic situation. As well as other emergent economies, Romanian economy has felt the pressure of international perturbations. The situation escalated also due to the inner political instability and the rising current account deficit, which had reached 12.8%.

The government inflation objective of 4% (+/-1%) for 2007 was surpassed by 1.57%, reaching 6.57% by the end of the year. The situation hasn't changed in 2008 either as the inflation rate in January 2008 reached 7.26% compared to January 2007. Due to these circumstances the inflation objective for 2008 has changed from 3.8% to 5.9%.

Table 1 shows the values of the consumption price index between 2001 and 2007 and the prognosis for the next 6 years. Their evolution is illustrated in Figure 1.

TABLE I

	UM	2001	2002	2003	2004	2005	2006	2007
CIP (end of year)	%	30.3	17.8	14.1	9.3	8.6	4.9	6
CIP (average)	%	34.5	22.5	15.3	11.9	9	6.6	4.8
	UM	2008	2009	2010	2011	2012	2013	
CIP (end of year)	%	5.9	3.6	3	2.6	2.4	2.3	
CIP (average)	%	5.7	4	3.3	3	2.6	2.5	

The rating agencies (Standard&Poor's Corporation, Fitch Investors's Service) consider the instable political environment and the rising internal disequilibrium important risk factors and have revised the country rating, changing it from "stable" to "negative".

In spite of the numerous challenges, Romanian economy is considered to be promising and there is confidence in Romania's bright perspectives. After the decline of exports to the European Union at the end of the 20th century, the internal gross product has grown and the macro-economic indicators have shown continuous improvement.

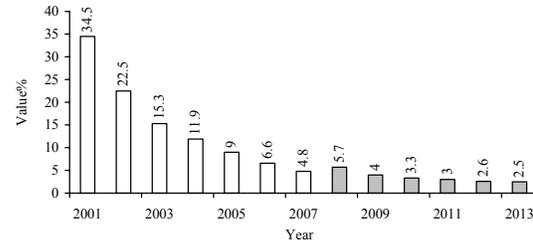


Fig. 1. Consumption Index Price.

The constant and significant direct foreign investment and the systematic macro-economic policies promise to diminish the country's vulnerability. Intense investment activity also indicates the possibility of long term improvement of the export capacity and the reduction of the current account deficit.

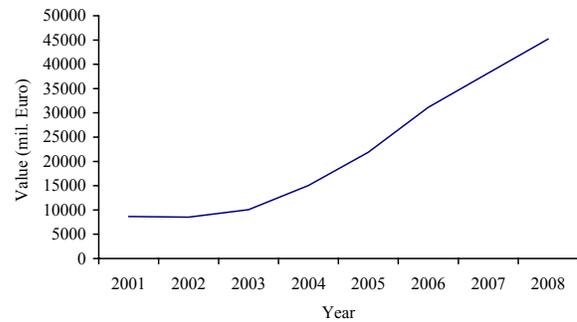


Fig. 2. Cumulated direct foreign investments.

Following UE integration, Romania will benefit in the next period of time (5 years) of European post-integration funds that will accelerate economic activity and improve the economic environment. The rapid growth of the internal gross product (IGP) in the last 7 years, the drop of the inflation and interest rates are signals that encourage investors.

Fueled by private investments, the volume of exports and competition in the industrial sector have raised in the last years due to the increase in productivity.

At present, Romania is a visible and attractive destination for international investors and the prognosis for the economic evolution in next years is promising.

### 2.3 The legal and judicial environment

The judicial environment consists of the judicial norms and regulations that govern the commercial activities of the company. The judicial and institutional environment includes not only commercial legislation, but also the regulations established by international committees.

At the most general level, the commercial legislation can be divided into three main law groups [4]:

- Laws that regulate market competition (protect entrepreneurs from unfair competition, discriminatory prices etc.);
- Laws that protect the consumer (they guarantee the safety of the products used, they protect against misleading commercial practices etc.);
- Laws of general interest (for pollution reduction, for resource conservation, laws for raising the quality of life etc.)

In order to improve the economic environment Romania has to prove to investors that it hosts a judicial and institutional environment that protects investments and assures that contractual agreements are followed.

The Romanian legislation system is based on the Byzantine tradition of the Justinian Code, with excerpts from the Napoleonic Code. There are three main separate powers: the legislative power, the executive power and the judicial power.

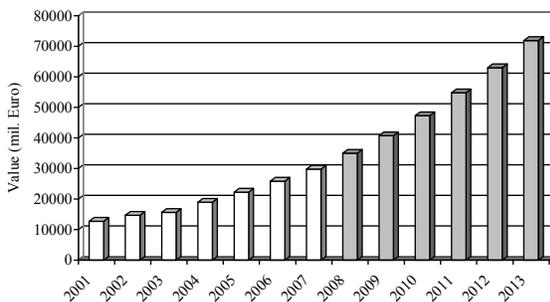


Fig. 3. FOB exports.

As member of the EU Romania has adopted the Community Acquis, harmonizing its legislation with that of the European Union so that the Romanian legislation is compatible and similar to the rest of the EU countries.

In 2001 a new bill was passed, law no.332, with the purpose of making the country more attractive from an economic point of view. It had a major impact on foreign investments. The law offered opportunities to investors that develop businesses with high impact on the Romanian economy, ensured free access to the national market, and offered investors the opportunity to participate to the privatization of state-owned companies. The law gave foreign physical and judicial persons the possibility to set up companies in Romania and to repatriate the profit by 100% after paying taxes.

The Fiscal Code passed in 2004 is proof of a strict fiscal policy, intensified by significant progress in structural reforms that have led to a better financial discipline for companies and have created a more solid base for the public finances and the financial system.

The introduction of the unique taxation quote of 16 % in 2005 (following the example of the neighboring countries) has turned Romania into one of the most attractive investment destinations. The fiscal reform that accompanied the unique taxation rate resulted in the simplification of fiscal procedures and added to the transparency growth.

Corruption is still an important issue that Romania has been confronted with for some time, and although the

anticorruption legislation is compatible with the Community Acquis, there are difficulties in applying the law on a large scale and in a uniform way.

In order to increase the transparency a new institution was created, The National Prosecutor's Office for Anti-corruption, but more effort is required to improve the independence, efficiency and credibility of this institution.

According to the annual report of Transparency International, Romania is one of the most affected countries by corruption, together with Albania, Pakistan, and Cambodia etc. The 2008 Corruption Perceptions Index shows that Romania has a much higher level of corruption than other EU countries, with 33% of the people questioned having answered that they have given bribe in the past year.

The corruption issue has to be solved for the sake of Romania's future image.

#### 2.4 The political and governmental environments

The political environment is composed of social structures, political forces and the relations between them. All of them generate a political climate that can be more or less stable and that directly influences a country's business environment, the degree of state intervention in economy and the general attitude of the administration towards the economic life of society.

From a social and political point of view official European Union and NATO evaluations consider Romania a stable state.

According to Romanian Constitution, the country is a republic, a democratic and social state. Human dignity, civil rights and liberties, justice and political pluralism are essential values and are guaranteed by Constitution [5].

The president is elected by universal vote, for at most two mandates of 5 years each. The president represents the state and sees that the Constitution is obeyed and that public authorities function properly. He designates a candidate for the prime-minister position and appoints the Government based on a trust vote by the Parliament.

The bicameral Parliament (Deputy Chambers and Senate) is the institution that represents the people and is the only legislative authority. The Government needs to be validated by the Parliament and represents the body of central administration leaders.

Public administration is based on the principle of local autonomy and of decentralization of public services.

Local and municipal councils are elected by direct vote and act as autonomous administrative authorities, solving public issues.

The government appoints a prefect in each county and in Bucharest city. The prefect represents the central government at a local level and can block the actions of the local council if they are against the law or the constitution [6].

Following the failure of the campaign against the president at the end of last year, a political crisis was started. The campaign failed to achieve its goal and instead shattered the government coalition.

The stabilization of the political environment and a clear commitment of local authorities to economic reforms, in conjunction with a better financial management (especially in

what concerns EU funds) are essential to minimizing the vulnerability of the country and to keeping the investors' trust.

## 2.5 The socio-cultural and demographical environment

The socio-cultural environment includes the institutions and factors that define a society, that create its specific set of values, traditions, rules and customs that generate a certain ethical, moral and cultural behavior for all its participants.

Since all these factors influence the consumption and purchasing behavior, the necessity to monitor the cultural environment, to observe the tendencies and the changes from generation to generation becomes more and more obvious for producers and merchants.

With a population of 21.5 million Romania is the 10th largest country in Europe and the 49th in the world; the inhabitants are 89% Romanian and 11% minorities. The official language is Romanian and there are national minorities whose maternal language is Hungarian, German, Polish and Bulgarian. The majority of the population is of orthodox religion, but there are also people of Catholic, Calvinist, and Baptist etc. belief.

Romania's active population numbers 9.2 million and is decreasing. Of these 9.2 million 4.7 million are employed and an important number of people works in agriculture, farming for sustaining their families and selling the surplus.

The demographic environment consists of the population surrounding or involved in the company's activity, including the work force market and the goods and services market. The company is interested in several demographic aspects: the population number of the interest area, its structure by sex and age, the family structure, the density, the population's mobility, the life expectation, the repartition of population in rural and urban centers, the ethnic groups, the religion, the education etc. These characteristics are used by the company to determine the dimensions of the potential market, to elaborate estimates regarding the evolution of the demand of products and services and to determine the right price mix for that specific market. The demographic attributes can offer clear indications on the structure of the range of products, on the prices that the consumers are willing to pay for those products, on the optimal means of distributing them and on the best promotional strategies.

The investors take into consideration the degree of technical education of the workforce and the general level of education in the country they are turning their investments to.

The Romanian workforce is characterized by solid theoretic knowledge due to its renowned universities, especially in IT and engineering. The young graduates don't possess, generally, many practical skills, but they are flexible and accommodate quickly to new working conditions.

Romania's work market is characterized by significant differences between different parts of the country and Romanians' mobility is generally lower than that of people from Western Europe, therefore it is advisable that the business be developed in the areas where there is available work force. The usual work conditions for workers in Western Europe may attract Romanians as they are accustomed with inferior working conditions.

The unemployment rate is low and has been diminishing in the past years, so that analysts are talking about a work force

crisis generated, to a certain extent, by the large number of workers that chose to work abroad.

TABLE IV

	UM	2003	2004	2005	2006	2007
Employed population	Thousands	4591	4420	4704	4575	4734
Unemployed	Thousands	659	558	523	461	395
Unemployment rate	%	7.4	6.2	5.9	5.2	4.4
	UM	2008*	2009*	2010*	2011*	2012*
Employed population	Thousands	4865	4950	5025	5090	5150
Unemployed	Thousands	380	370	360	350	340
Unemployment rate	%	4.3	4.2	4.1	4.0	3.9

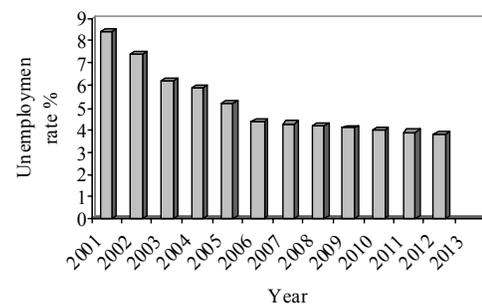


Fig. 4. Unemployment rate.

The work force market and the working relations are regulated by the Work Code, both for employers and for employees.

The existing agreements between the Government and representative Syndicates and their constant dialogue assure social stability, with no significant social or syndicate movements.

## 2.6. The marketing microenvironment

The microenvironment consists of economic agents that the company has direct relations with, having direct connections with the company and strong and reciprocal influences (materialized in an ensemble of conditions, activities and specific relations). It provides the setting for the marketing policy, playing an important role in the elaboration of the marketing mix. The companies can anticipate the changes that may appear in the microenvironment and are able to answer them, influencing or controlling the degree of their influence on the market relations of the company and its competition.

The microenvironment includes the factors and the forces with immediate influence on the company, forces that have a direct impact on the success of the activity and that the company controls to a certain extent: the company itself, the suppliers, the middle people, the competition and the public.

The company elaborates and coordinates its marketing activity taking into account the information provided by the management, research and development, financial-accounting, provisioning, production, and personnel department.

The marketing decisions are directly influenced by the quality of the personnel from all the company's departments and by the circulation of information between departments. They represent the internal environment of the company and the micro environment that is under its total and direct control. The company may have some influence on the other elements of the micro environment but cannot have total control over them.

Suppliers: while the clients represent a direct income source for the company, the suppliers are the variable element in the structure of a product. The cost of a product varies proportionally with the quantity of raw materials, sub ensembles and components that the company buys from suppliers.

Suppliers represent a force by the prices they impose, by the quality they offer and by their promptness (we might say that from this point of view Romanian suppliers represent a big problem, many companies being forced to work with a single supplier). When suppliers compete for a client they will try to show a credible image and will keep the prices at a low level in order to attract more clients.

Intermediates: they are physical or judicial persons that play the role of the middleman between the seller and the buyer of a product (service) or that settles a transaction having the mandate of both parties and a financial benefit from representing them. There are three types of intermediates that support the marketing efforts of a company:

- Resellers: organizations whose role is to make the products more accessible to the final consumer. They are wholesalers, retailers, sales agents and any other company whose purpose is to distribute products of other companies

- Physical distributors: are usually operators of merchandise warehouses and transportation companies involved in delivering goods from producers to their users

- Agencies that offer marketing services: are advertising agencies, market study companies, marketing consultancy companies and any other company that offers consultancy or facilities to help their clients to identify the consumers and to communicate with them

The last two elements of the microeconomic environment are representatives of the two market forces that influence the demand (sustained by clients) and the supply (that comes from the company and the competition).

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