Towards a Romanian economic model through economic intelligence

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Abstract:
In a world marked by an increasingly fierce battle for obtaining and capitalizing on various competitive advantages, states are interested in designing and implementing strategies that adequately define their directions for action on development on principles of sustainability, balance and competitiveness.

In the era of globalization, the world economy is marked by a strong increase in global competition, which has led Thomas L. Friedmann to write in his work "The Earth Is Flat: A Brief History of the 21st Century" that the playing field of the world competition has leveled out, becoming flat. Globalization brings effects to the world economy through a number of driving forces: the dismantling of trade barriers, the emergence of new industrialized countries, technical and technological innovation.

In this way, Romania has to rapidly adapt to the new economic and social realities and to choose for one or another of the economic models, especially because repeated attempts in the last 30 years have not been successful.

Keywords: Economic Models. Economic Intelligence. Romanian economic model

1. The main international economic models

In order to understand the current world economic developments, we chose to use the theory of Peter A. Hall¹ & David Soskice², who, in their "Varieties of Capitalism" (published in 2001), identified two models of capitalist economies: coordinated and liberal.

The analysis model of the two economists consists in assessing the capitalist economic systems based on the same criteria: the financial system; labor relations; school education and training system; relations between economic agents (Hall & Soskice, 2001).

The two economists have highlighted that liberal capitalist economies are specific to countries like the USA, Canada, Great Britain, Australia, New Zealand, Ireland etc. and are characterized, among other things, by the financing of activities carried out by economic agents, mainly through the capital market (shares / securities). In addition, they are marked by short-term employment opportunities ("hire and fire") and by very limited social protection measures against dismissal. The situation arises in the context in which education mainly ensures the training of generalists through global qualifications that are not directly adapted to professions / trades, which guarantees mobility on the labor market between various sectors of activity. Business connections are also limited, such

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relationships happening either when supervisory boards are common or when there is cooperation between companies, such as research.

On the other hand, Hall and Soskice pointed out that coordinated capitalist economies are specific to countries such as Germany, Japan, Sweden, Austria etc. and are characterized by the preferential financing through the banking system, which allows long-term investments.

Hiring process is usually long-termed and the goal is to ensure social stability and balance. This situation is the result of the fact that the educational system ensures specific skills for both economic agents’ activity and economic fields being hardly sustained by central departments and trade unions. Furthermore, companies are interconnected through common shares.

- USA is a liberal economy and allows companies to easily react to the market evolutions. The existing pressure in this case over the companies, requires a fast adaptation to the changes on the market. The American work relationship system is less permissive for developing production strategies which require large investment and stable long-term jobs. Actually, the USA system generates advantages for innovative departments focused on venture capital (such as IT), and also for the service industry based on a general professional preparing and low levels of payment.

Because of their economic system, USA has had higher economic growth rates compared to Europe since the 90s: the USA economy has increased on average by 3%, while Europe by 2.2%. However, this positive trend of prosperity was not followed in the same way when referring to the distribution in all socio-professional categories. The thing that is eloquent is that while in the 50s manager salaries were 25 times higher than those of the employees, in 2000s they were 350 times higher (Reich, 2008, 144). In fact there is a big difference between the private system’s wealth and the poverty of the public system (greatly affected by a chronic underfunding), which places USA when we refer to the quality of public infrastructure, on an inferior spot. (Hinchmann, 2006, 352).

- The German economic system is somewhere between the Anglo-Saxon market economy and the Scandinavian economy (Schmidt, 2000). Work relationships are mostly long-termed, in Germany employees work at the same employer in average over 10 years. To compare, the average in Great Britain is 8 years and in the USA, 7 years (Streeck, 1995). Cooperating work relationships and higher levels of professional qualification of German employees, guarantees a growth in productivity, with positive effects on salaries and reduced time of work (Hassel, 2006).

In this way, there aren’t significant differences between staff salaries in Germany, which is part of the middle social class, much developed comparing other countries: 66% of German population is part of this category, while in the great Britain is around 26%, and 44% in the USA (Rossel, 2005).

- The Japanese economic system is based on economic groups, assured proper developing of the industry by the gradually optimization of standardized products, the placement of great quantities of good quality products on the global market and the continuous growth of productivity. Financing and control mechanisms provided by the banking system over the economy, made possible the existence of long-term development strategies and the mechanisms of economic organization (vertically or horizontally) have guaranteed distribution and efficient use of the necessary resources for implementing them. For the system success have also contributed the educational systems which have prepared determined and consistent staff.

On the other hand, the coordinated capitalist system of Japan have generated some less beneficial effects such as big differences between corporations and small companies,
few chances of personal development and some corruption trends from a part of employees.

Over the last years, the Japanese economy is facing the effects of internationalization and a great deal of technological and organizational progress which brought the necessity of paradigm and economic policy shifts. Practically, the Japanese system is tempted to move towards the Anglo-Saxon model (Dore, 2000; Pascha, 2004; Streeck & Yamamura, 2003), but without finding a characteristic and adaptable model of Japanese realities.

- Sweden is the closest to the type of coordinated market economy, being characterized by a high level of collaboration between employers and employees for wage setting. In addition, both sides have important roles into the training process, provided by the state. Economy financing is provided both by bank credits offered by institutions that have shares in those companies and by mechanisms of capital market and business networks. The last ones have another important role, that of transferring technology and developing cooperation between companies.

Sweden is a particulary case of an economy that manages to provide a balance between a high economic growth rates (4.2% in 2015 and 3.6% in 2016\(^3\)), balanced distribution of prosperity (GINI coefficient is 27.3% between 1010-2015\(^4\)) and a low level of unemployment rate (7.4% in 2015 and 6.9% in 2016).

2. Globalization-major influence factor of economic models

International economic evolutions have been influenced by the globalization process since the second half of the XIX century which revealed the transnational character of various economic activities. Globalization is an economic, social and political phenomenon which affects the whole world. In a very short period of time globalization was accelerated by IT system, telecommunication and transport. This has transformed the world into information networks which develops and influences in real time the most of human activities. This process tends to integrate technology, culture and governance whithout barriers between countries. This integration acts simultaneously, uniting processes and offering a group of new markets, tools, actors and reglementations (UNDP, 1999, 25-44). In this moment, globalization has effects all over the human activities, which have outlined the next dimensions: industrial, financial, economic, political, informational, linguistics, competitional, ecological, cultural, social, technical, ethical (Barna, 2010, 53-54).

Considering the economic concepts, globalization is related to the free market economies and neoliberalism and it is in contrast with economic nationalism and protectionism. Related to its economic dimension, globalization consists of four important economic trades: goods and services, labour force, capital and technology\(^5\). Practically, in the globalization era, global economy is defined by an important growth of worldwide competition which determined Thomas L. Friedmann to write in his book "The Earth Is Flat: A Brief History of the 21st Century" (published in 2005) that the playing field of the world competition has leveled out, becoming flat (Friedmann, 2007). Globalization induces effects over the global economy due to:

- a) dismantling trade barriers: this process begun in the 50s and have occurred in stages through international agreements. Firstly, considering WTO (and their predecessor,

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GATT) customs tariffs have been reduced and importing restrictions, eliminated. After this, in the 70s liberalization of exchange rates occurred between different national currencies. Furthermore, in the free trade areas of EU and NAFTA (USA, Canada, Mexico) there have been eliminated all trade barriers. Similar concerns have had MERCOSUR and ASEAN.

b) the development of new industrialized countries: beginning with the 70s the most dominating forces of global economy (Europe, USA and Japan) are challenged by new economic actors. First of them was China, gradually giving up planned economy which allowed it to get out of isolation and to move towards the market economy. In this way, China managed to record in the last 30 years a positive economic trend, being until 2015 the country with the highest economic growth rates of around 10% per year\(^6\). In addition, it became the greatest worldwide exporting country of goods and also being the second global importer in this sector. After the collapse of the socialist regimes in the latest 80s, the former Soviet republics and the Eastern Europe countries, have chosen the transition to the market economy, becoming commercial competitors internationally. After this, India gave up to the highly regulated and protectionist economic mechanisms and begun a ample process of liberalization and development of its own economy, having economic growth rates similar to China.

c) Technical and technological innovations: the powerful success of this field of activity has contributed significantly to the development of the aforementioned processes. Because of the optical fiber technology there has been a rapidly spread of the worldwide telephone network and by the evolution of the internet, economic and commercial activities have been possible very far geographically. Among others, it has become possible to quickly sign contracts and also to make financial transactions, banking transfers and running transports at low cost and in short time etc.

As any other phenomenon, globalization has generated a series of positive effects in various economic sectors and community fields, but also some negative consequences for others.

The benefits of globalization are mostly visible in the knowledge based economies where there are economic sectors with intensive activities of research and innovation and the products are then sold on the global market. In this way, by selling their products on very attractive markets, very high costs are amortized. Practically, this kind of activities cannot be profitable on local markets. Also, the positive effects of globalization are visible in economies based on production of high-tech industrial goods such as the car industry in Germany and Japan. These two countries have significantly invested in research and developing of new models (expensive and time consuming financial resources) and, in the end, they have gained huge profits due to the worldwide selling. Another sector which was benefically influenced by globalization in the area of mass production such as textile industry, leather industry etc, where there are not necessary high levels of professional skills and well developed infrastructure. Mass production is almost everytime located in industrial areas with cheap labor force (for maintaining production costs at a low level). In the 90s, textile industry was one of the most important economic fields in Europe but in the moment, mass productivity has been relocated in Southern and Southern-East Asia, in Europe remaining only fashion stylists.

Globalization has also induced negative effects in some economies, regions and socio-professional fields such as:

- big differences between labour force incomes. While textile factory staff in Europe risk becoming unemployed after the industry will be deployed, in Asia those who work in

IT have a better perspective due to the increase in orders. Although the well-being of the population has increased in countries with large GDP, but also in development economies (such as China), the gap between employees incomes grew.

- the absence of international regulations in some vital socio-economic sectors. The existing difficulties in assuming the environmental obligations from the Kyoto Protocol7 (signed in 1997)-more recently, the UNO Conference from Paris in 2015 regarding climate changes8-and also in imposing a mandatory character worldwide regarding safety of employees, stated by ILO9 or those referring to social and economic rights, established in UNO pacts for the international right are some relevant examples.

3. Romanian economic status-quo

Many states including those from the former socialist bloc, have rapidly adapted to the new socio-economic realities and have opted for one or another economic model. In return, Romania is still far away from establishing a coherent, unitary and theoretically fundamental policy in order to develop and good-function of its economy. Practically, in the last 30 years, there have been all sorts of attempts to orient the economy to one direction or another but without having any deep and exhaustive evaluation about the romanian socio-economic realities being compared with basic economy.

Relevant in sustaining this conclusion are the next romanian economic characteristics-considering the analysis model promoted by Peter A. Hall and David Soskice:

- The main economy financing instrument is the bank credit system. In Romania, the financing of the economy is provided by the banks by 90%, lending process having the main role into the economic evolution. In April 2017, the total value of the internal assets reached ROL 409.3 billions(cash, credits, placed deposits, debt securities, fixed assets etc).11
The value of the banking loans at the end of April 2017 was ROL 323 billions, having the following structure:
- ROL 223 billions- non-governmental credit (granted to the private sector-legal entities and population);
- ROL 100 billion-non-governmental credit (granted to the public administrations), including debt securities of ROL 89.7 billions.12

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7 It is an international environmental agreement that was negotiated in December 1997 by 160 countries and stipulates for industrialized countries a 5.2% reduction in pollutant emissions over the 2008-2012 period compared to 1990. In order to be effective, it must be ratified by at least 55 nations (condition already fulfilled), producing 55% of global carbon dioxide emissions. This latter condition was met in October 2004 by ratification by Russia of the protocol. Protocolul de la Kyoto: https://ro.wikipedia.org/wiki/Protocolul_de_la_Kyoto (accessed on 19.01.2017).
8 On December 12, 2015, the parties reached a new global climate change agreement that has a balanced outcome with an action plan to limit global warming “well below” 2 ° C. Acordul de la Paris privind schimbările climatice: http://www.consilium.europa.eu/ro/policies/climate-change/timeline/ (accessed on 19.01.2017).
9 International labor standards have become a comprehensive system of labor and social policy instruments supported by a supervisory system designed to address all kinds of problems in their application at national level. However, they are not mandatory at international level OIM: http://www.ilo.org/global/standards/lang-en/index.htm (accessed on 19.01.2017).
10 The UN is the world's most important international organization, founded in 1945 after World War II, currently has 194 member states and mission to ensure world peace, respect for human rights, international co-operation, and respect for international law. However, UN regulations are not mandatory globally. ONU: https://ro.wikipedia.org/wiki/Organiza%C8%9Bia_Na%C8%9卑ilor_Unite (accessed on 19.01.2017).
According to their economic destination, loans to the private sector have the following structure: ROL 55.2 billions for the industry sector; ROL 80.4 billions for services; ROL 21.2 billions for construction; ROL 13 billions for agriculture, forestry and pisciculture; ROL 15.5 billions for financial intermediation and insurance and ROL 127.5 billions for population (household, consumption or other purposes)\(^\text{13}\).

Reported at the maturity of the loan, private sector credits have the following structure: ROL 36 billions in the short term (ROL 26 billions being granted in ROL and ROL 10 billion in currency); ROL 61 billions in the medium term (ROL 47 billions in the national coin and ROL 14 billions in currency); ROL 119.4 billions in the long term (ROL 54 billions in the national coin and ROL 65.4 billions in currency)\(^\text{14}\).

Even though banks grant the most of the economy financing, we attend a series of evolutions mostly worrying for the economy. Firstly, financial funds are unequally distributed among different business categories, credits being allocated primarily to large and very large companies. Instead, small and medium companies which ensure two thirds of Romanian jobs, being the main factor of economic growth rate, are poorly financial supported\(^\text{15}\).

Of the 450,000 small and medium-sized businesses active in Romania, 80% have never accessed a credit bank or other type of external financing\(^\text{16}\). This situation also arises if we keep in mind that banks are experiencing a relatively high rate of non-performing loans on this segment: 35%\(^\text{17}\).

Secondly, non-governmental credit (for sustaining the private sector) is not correlated with the economic growth having the result of a continuous decline in the volume of loans to firms in recent years: ROL 214.6 billions on December 31\(^\text{st}\), 2016, meaning 28.30% of Romanian GDP in 2016; ROL 212.7 billions on December 31\(^\text{st}\), 2015, meaning 29.92% GDP in 2015; ROL 207.5 billions on December 31\(^\text{st}\) 2014, meaning 31.07% GDP in 2014. The situation is all the more serious as the level achieved at the end of 2016 a new low after 2007 (the year of the global economic and financial crisis) while the EU average of government credit in GDP has steadily increased-98% in 2015\(^\text{18}\) and 100% at the end of 2016\(^\text{19}\).

Of the total non-government credit, corporate credit is declining sharply to 13.4% of GDP on December 31\(^\text{st}\) 2016 (historical minimum), comparing to 20.4% of GDP at the


end of 2011 and approximately 17.5% at the end of 2007\textsuperscript{20}. Instead, the population credit is rising-from 3.39% of GDP at the end of 2007 to 7.71% of GDP at the end of 2016-with the implementation of government-type "First-houses" programs\textsuperscript{21}.

However, a growing emphasis is placed on the development of the capital market system, in the context in which the Romanian business environment does not have a great appetite for the stock exchange mechanism. Eloquent is that although BVB started its activity in December 21\textsuperscript{st} 1995 (after a period of 50 years of suspension in the communist era\textsuperscript{22}), the first regulation that underpins the founding and development of a domestic capital market only appears in 2004\textsuperscript{23}.

- in terms of work relations, Romania is characterized by consistent sets of social protection measures (established by labor law), which significantly limits the employer's possibilities to resort to "hire and fire" measures. Although there are mechanisms in place to organize a trade union and employers' organization, their role in imposing firm and strict rules is limited.

Romania's staff is structured at the level of five representative trade union confederations: The National Trade Union Bloc, The Trade Union Confederation "CARTEL ALFA", The National Confederation of Free Trade Unions in Romania, The Confederation of Democratic Trade Unions in Romania and the "MERIDIAN" National Trade Union Confederation\textsuperscript{24}.

The Romanian companies are reunited in 8 major employers' organizations: The General Union of Industrialists in Romania 1903, The General Union of Industrialists in Romania, the National Employers' National Council in Romania, The Employers Confederation of the Romanian Service and Trade Industry, The National Confederation the Romanian Employers' Association, The National Council of Small and Medium Enterprises in Romania, The Romanian Employers Confederation, The CONCORDIA Confederation of Employers\textsuperscript{25}. Practically, these organizations play an almost decorative role, focusing more on formal activities (conferences, events etc.).

- the school education system and vocational training is little correlated with the needs of the labor market, focusing mainly on providing general training to graduates of various forms of schooling. The situation occurs, among other things, in the context of the last foreseen study conducted in Romania (labor market) in 2011. It outlines the projection, at the horizon of 2013 and ahead of 2020, of the evolution of national labor demand and at the level of all development regions. In order to validate the trends from the prospective studies, the short-term labor demand survey of 6-12 months was carried out on the basis of a representative sample at national level, which included 3,836 companies\textsuperscript{26}.

\textsuperscript{22} BVB - Bursa de Valori București, fondată în 01 decembrie 1882, dar închisă de regimul comunist în 1945 și redeschisă în 1995: http://www.bvb.ro (accessed on 27.08.2017).
\textsuperscript{26} https://www.edu.ro/sites/default/files/_fi%C8%99iere/Minister/2016/strategii/Strategia_VET%202016.pdf (accessed on 29.06.2017).
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The Romanian state education system has a number of rather worrying characteristics / trends:
- the rate of school drop-out is rising: 18.1% in 2014 (0.8% compared to 2013), while the European average is only 11.1%;
- career guidance services offered to middle school students (for information and awareness of native abilities) still have a low impact. It is eloquent that the school enrollment rate for the population aged 15-18 shows a continuous decline since 2009, reaching 81.4% in 2013 (below the 2005 threshold).
- the enrollment rate in vocational education dropped sharply in 2009-2011 from 15.8% to 1.8% as a result of the entry into the process of winding up arts and craft schools. The focus on the vocational training segment has returned to the preoccupations of the national authorities only in the school year 2014-2015, when the state professional education (3 years) was (re) introduced after graduation of the 8th grade.

In this way, the employment rate of the population (aged 20-64) was 65.7% in 2014, compared to the European average of almost 70%. Moreover, the adult participation rate in continuing vocational training programs was 1.5% in 2014, compared with 10.5% as the European average. The situation is even more worrying at the level of employees in the private sector, where there is no training sponsored by firms for 41% of their employees over the age of 40 and with low skills. The rate increases to 50% for employees aged between 18 and 24 and with low skills and education.

• relations between economic agents can be described from several angles. Once, regardless of the nature of the capital (private or state owned), there are large groups of companies with Romanian capital (ELECTRICA, state owned, DEDEMAN and MOBEXPERT, both private) and foreign capital (EON, ENGIE, ENEL, BRD-GSG, DACIA RENAULT), but also with mixed capital (OMV PETROM, BCR-ERSTE). On the other hand, many companies do not have connections between their shareholders, which places Romania again in a "uniqueness" format.

Conclusions

Important countries on the world economic map (USA, UK, Germany, France, Japan) have chosen and implemented economic models that characterize them and allow their economies to be strong, balanced, sustainable and competitive. Instead, almost three decades after the fall of the centralized communist regime, Romania does not have a Romanian model to establish and follow clear lines of action to develop similarly to other internationally economies. The Romanian economy functions in the light of a mixture of ideas taken from each of the fundamental economic models, which explains somewhat the sustainable, competitive and balanced development gap between itself and others, but also its difficulty in adapting to the times of economic crisis.

The main arguments we put forward in support of the existence of this atypical meltdown of economic milestones are given by the fact that:

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a) the financing of the Romanian economy is mainly provided through the banking mechanisms, although, all the governments of the last two decades have argued on the need to develop the stock exchange system as a financial support tool for economic activities;

b) social protection is set up at a theoretical level through well-defined regulations, but its effective implementation is dependent on the ability of the responsible state institutions (from the Labor Inspectorate and the National Agency for Employment to the National Agency for Fiscal Administration) to intervene promptly to sanction non-compliance. The role of the trade union and employers’ structures is more decorative, the activity of these being over-politicized;

c) school education and training are focused on ensuring a general level of knowledge and practical skills for the graduates of various forms of education. Instead, the labor market demands on the educational system aim at providing specific professional skills for the various types of economic activities;

d) there is no specific format of the relations between economic agents in Romania, but there are cohesive interactions between the companies of the same group and also the absence of such connections between the various trading companies.

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