

ROMANIA'S INTERNATIONAL COMPETITIVENESS IN THE CONTEXT OF THE COVID-19 PANDEMIC

ALINA HAGIU¹, Marinela BĂRBULESCU²

¹University of Pitesti, alina.hagiu@upit.ro

² University of Pitesti, marinela.tanascovici@upit.ro

***Abstract:** It is not easy to talk about economic competitiveness in the context of the global covid-19 pandemic but is necessary. In order to realize the recovery after the pandemic we have to see which are the benchmarks of an competitive environment and to focus on the areas with the highest added value.*

In the World Economic Forum latest index of Global Competitiveness Romania ranks highest on pillars such as ITC adoption, market size, Institutions and Innovation capability. These are the areas which has to be capitalized. But, in order to survive the global competition Romania must realize higher investments in both public and private sector.

In this paper we aim to realize an analysis of the international competitiveness of Romania in the present context of the coronavirus pandemic and to identify some ways to increase it.

Key words: competitiveness, crisis, coronavirus, effects, solutions.

JEL Classification Codes: G01, O11, O50

1. INTRODUCTION

The concept of competitiveness does not have a unanimously accepted definition at international level, having a multitude of approaches given both by specialists in the field and by some international institutions. Economists around the world are looking for a unique notion of economic competitiveness but so far there is no clear vision for this concept.

In recent decades, competitiveness is used more as an indicator to measure the economic and social performance of countries globally and less researched as a concept. At the same time, competitiveness has lately become an objective reflected in several economic strategies and policies.

In the context of the international competitive struggle, the role of competitiveness of national economies is becoming increasingly important, stemming from the fact that a country cannot be globally competitive if it does not have a high level of internal competitiveness.

Based on the above, we can mention that competitiveness is a complex and multidimensional concept that has its own development history, but the measurement factors and indicators are diverse and result from those macroeconomic or world economic objectives that are put in front of all participants in this process.

Even some aspects of economic competitiveness are based on ancient, medieval and mercantilist economic ideas, globally it is considered that the scientific concept of international competitiveness is based on the theories of international trade, this being considered for a long period also the main source of enrichment of nations.



Later, the concept of competitiveness evolved into classical theories, especially those of David Ricardo and Adam Smith who studied how a country can make its goods more profitable in international markets.

David Ricardo in *The Theory of Competitive Costs of Production and Relative Mutual Benefits in International Trade* sought to explain how nations compete and how they choose their model of producing economic goods in order to be competitive in foreign trade. According to him, a nation that produces and sells abroad the goods it realizes with lower production costs relative to other national goods, and in exchange for them procures other goods whose realization internally proves less advantageous. (Ricardo, 1993)

In turn, in his Absolute advantage theory, Adam Smith believes that a country must specialize in producing those goods that can be obtained cheaper than in any other country with which it has economic relations of exchange.

Starting the 1940s, the neoclassical school began to study the concept of competitiveness through Stopler-Samuelson's Pure Theory of International Trade, which emphasized trade liberalization, which benefited abundantly at the expense of the rare factor. In his study, *International Factor Prices Equalization*, P. Samuelson argues that international trade leads to equal pay for factors of production under the following conditions: there is perfect competition in national and international markets; factors, which are perfectly mobile and in perfect competition within national borders, are remunerated according to marginal productivity; transportation costs are neglected. (Samuelson, 1949)

As can be seen from these economic theories and models, competitiveness has been studied more in terms of factors of production, these being used mainly in the process of producing goods for export or, rather, intended for international trade as a result of which national wealth accumulates.

And so far there is a view that the competitiveness of the national economy is assessed by exports, which is not exactly true. Exports are only an indicator of the international competitiveness of national economies.

In the 1980s, starting with M. Porter, modern theories emerged, as a result of which the notion of competitiveness has acquired a major importance in the appreciation of economic performance in the country and internationally.

Thus, in *Competitive Advantage*, M. Porter focuses on the determinants of international competitiveness operating at the microeconomic level, studying more firms and industries or branches of the national economy, concludes that each branch of activity has its own diamond that determines international competitiveness. (Porter, 1990)

In *European Competitiveness*, Kirsty Hugues argues that there are at least two main approaches to the concept of competitiveness that can be distinguished: a first approach regards competitiveness as a matter of relative, static or dynamic efficiency. This can be quantified on the basis of performance levels (productivity level, increased competitiveness, etc.) and the latter considers competitiveness as a reflection of performance in international trade (performance measured in the form of quotas held on export markets, or in the form of the degree of import penetration). (Hugues, 1993)

Robert Carbaugh in *International Economics* argues that International Competitiveness is the ability of a country, in terms of free market and fair competition, to design, produce and market goods and services either of a higher quality or at a lower price than its products and services provided by other countries. (Carbaugh, 1995)

The Austrian economist Peter Schifko in *Modern Theory* states that competition coexists with monopolistic elements, so it is multifaceted, not only in terms of prices, but also in terms of production, product quality, sales policy and polycompetition (competition) is imperfect and by this character it is dynamic and effective. (Schifko, 1989)

If we refer to the perspective of international organizations, according to the European Commission through the General Directorate for Economic and Financial Affairs, competitiveness is the ability of a country to coordinate economic growth with external balance; at the basis of the external performance of industrialized countries is the fundamental importance of international trade and according to the OECD, competitiveness is the ability of a nation to produce goods and services under free market conditions, while facing international competition and maintaining or increasing the real long-term income of the population.

The measurement of economic competitiveness at the international level is the focus of several international institutions, as well as the results of a series of new indicators, which are studied from these institutions.

An important indicator is the one shown in The IMD World Competitiveness Yearbook (WCY), first published in 1989, which is a comprehensive annual report and worldwide reference point on the competitiveness of countries. It provides benchmarking and trends, as well as statistics and survey data based on extensive research. The World Competitiveness Ranking is based on 334 competitiveness criteria selected as a result of comprehensive research using economic literature, international, national and regional sources and feedback from the business community, government agencies and academics. The criteria are revised and updated on a regular basis as new theory, research and data become available and as the global economy evolves. (IMD, 2021)

According to this indicator, we will further analyze Romania's international competitiveness in the context of the covid-19 pandemic.

2. ROMANIA'S INTERNATIONAL COMPETITIVENESS

According to IMD World Competitiveness Center, in 2020, Romania ranked 48th in the competitiveness ranking of 64 countries analyzed, up 3 positions compared to 2019. In the global rankings of digital competitiveness Romania fell 4 places and in the competitiveness of talents 2 places.

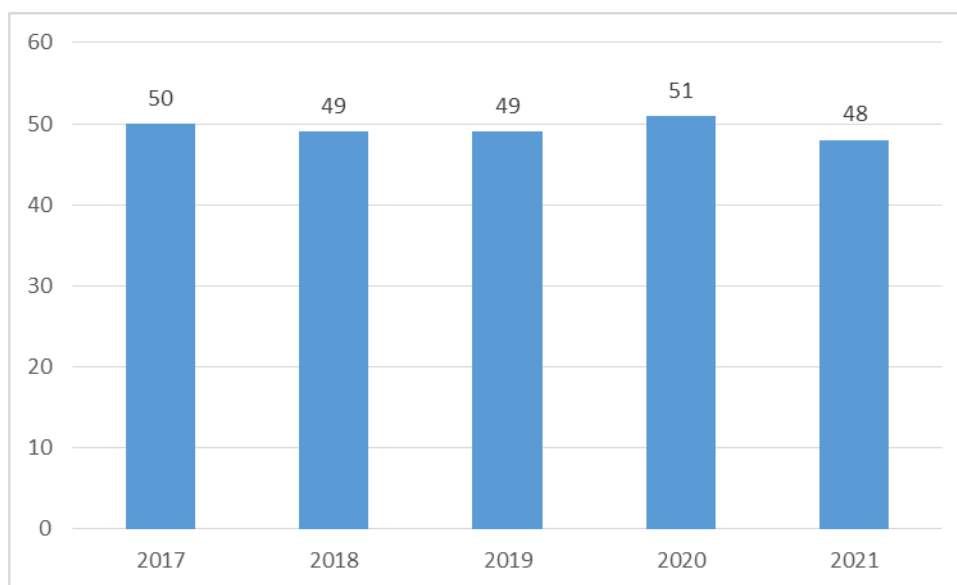


Figure no. 1 Romania's ranking in global competitiveness in the period 2017-2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

Although we recorded a slight increase, Romania is still among the last places among the EU countries, more precisely on the 23rd place out of 26 EU countries analyzed (Malta is not included in the calculation because it was not included in the ranking). Romania is followed only by Slovakia (50th place), Bulgaria (53rd place) and Croatia (59th place). The ranking is dominated by the European countries, on the first 4 places being Switzerland, Sweden, Denmark and the Netherlands, in the top 10 also being Norway, on the 6th place. Although we progressed slightly compared to last year, Romania is still far from European performers.

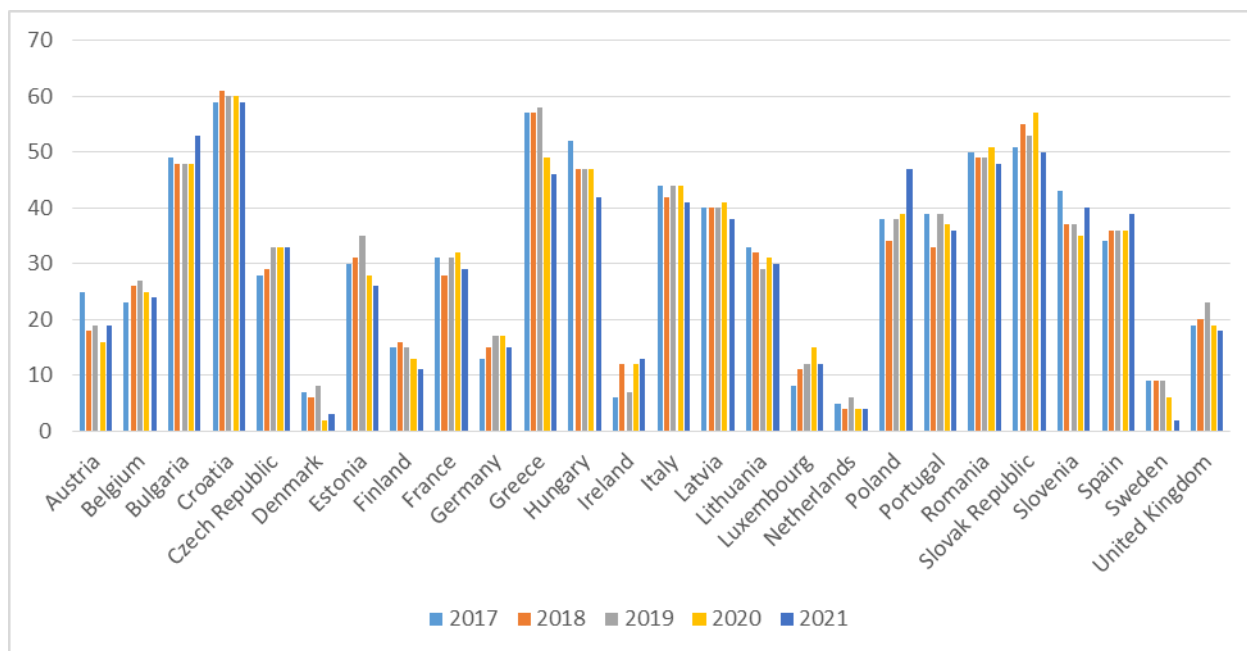


Figure no. 2 European Union member states ranking in global competitiveness in the period 2017-2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

The index includes 3 broad categories:

- ✓ Competitiveness;
- ✓ Digital Competitiveness and
- ✓ Talent Competitiveness.

Romania ranks best at Competitiveness, 48th place, the best ranking in the last 5 years. At Digital Competitiveness we are on the 50th place, decreasing by 4 places compared to 2019, when we were on the 46th place. Romania ranks the lowest in the Talent Competitiveness, on the 57th place, again decreasing 2 places compared to 2019, when we were on the 55th.

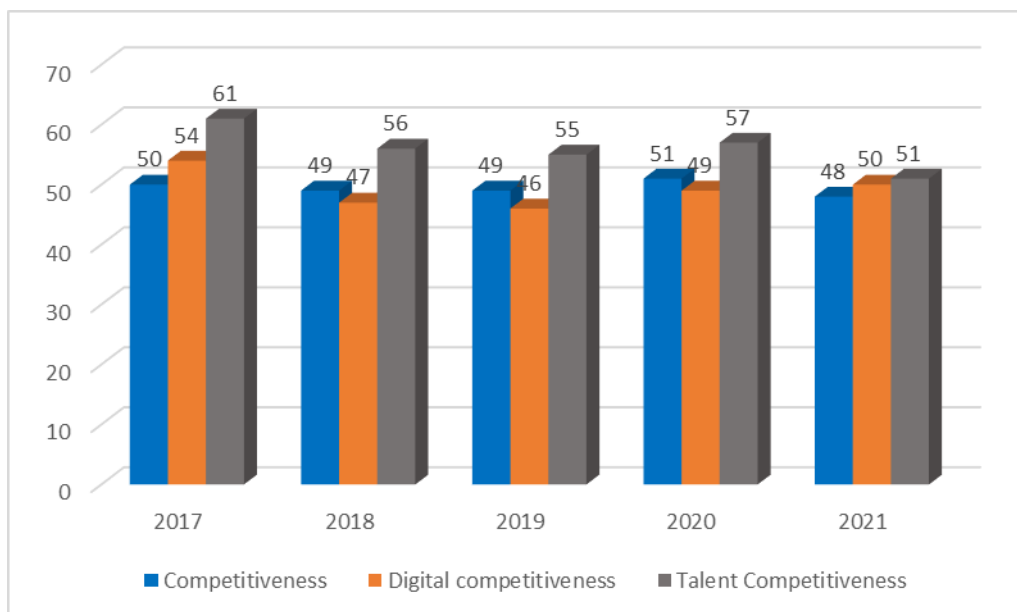


Figure no. 3 Romania's ranking in competitiveness, digital competitiveness and talent competitiveness in the period 2017-2021

Source: realized by the author based on data from *The World Competitiveness Yearbook*, IMD World Competitiveness Center, 2021.

Regarding the sub-indicators of Competitiveness, Romania is best placed at Prices, on the 18th place. In this section there are 4 indicators that Romania ranks low, below the 55th place in the world:

- ✓ Finance (60th place);
- ✓ Basic Infrastructure (58th place);
- ✓ Labor Square (56th place) and
- ✓ Management Practices (56th place), from 64 countries analyzed.

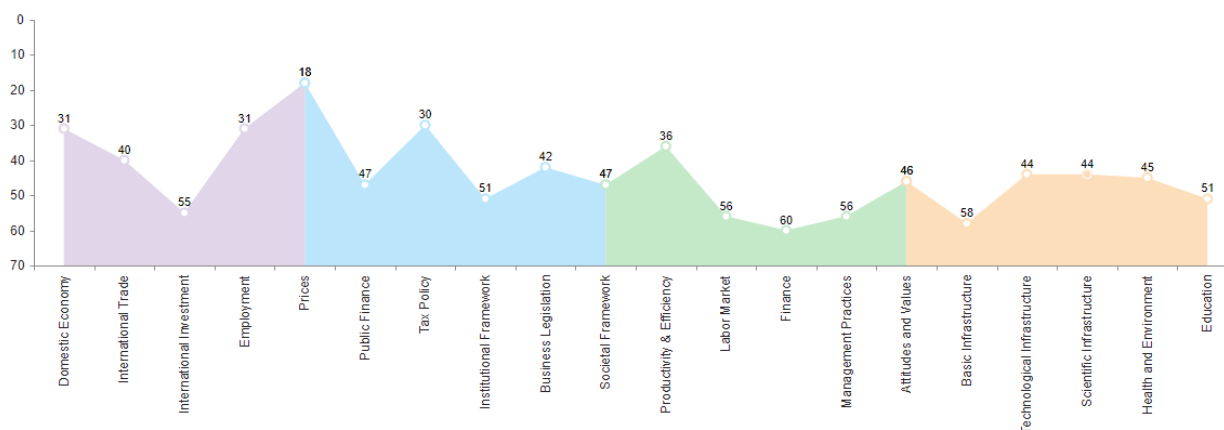


Figure no. 4 Romania's ranking on components of in competitiveness in 2021

Source: realized by the author based on data from *The World Competitiveness Yearbook*, IMD World Competitiveness Center, 2021.

The most important sub-indicators of competitiveness are presented in the following figure.

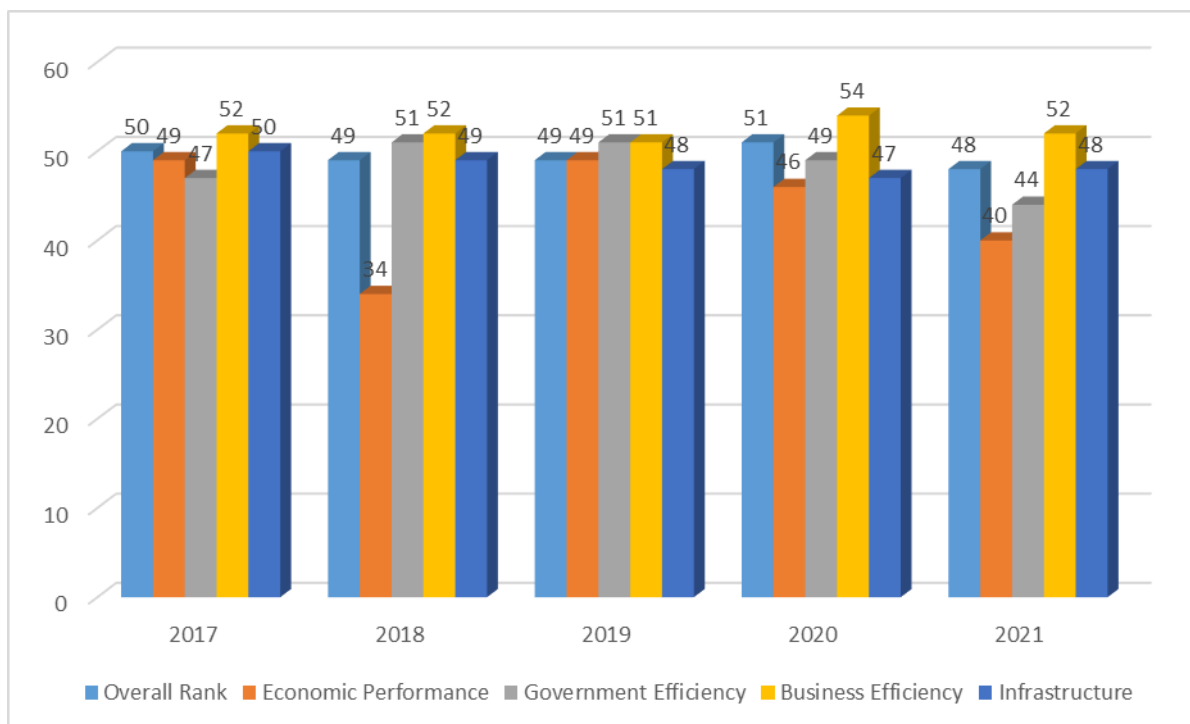


Figure no. 5 Romania’s ranking on main components of in competitiveness in 2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

The detailed situation of the main sub-indicators of competitiveness is presented below.

The economic performance main components ranking in 2021 is presented in the graph below.

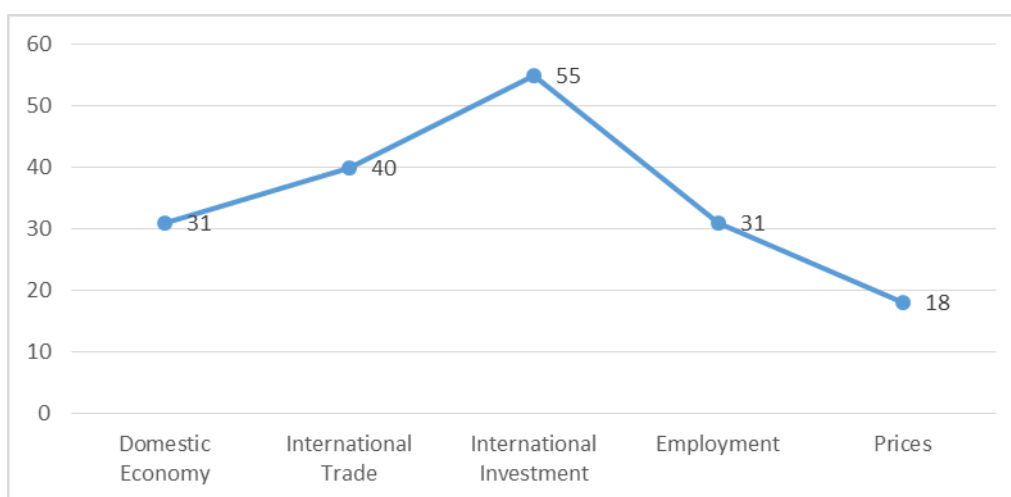


Figure no. 6 Romania’s ranking on main components of economic performance in 2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

In the figure no. 7 is presented the main government efficiency components ranking in 2021.

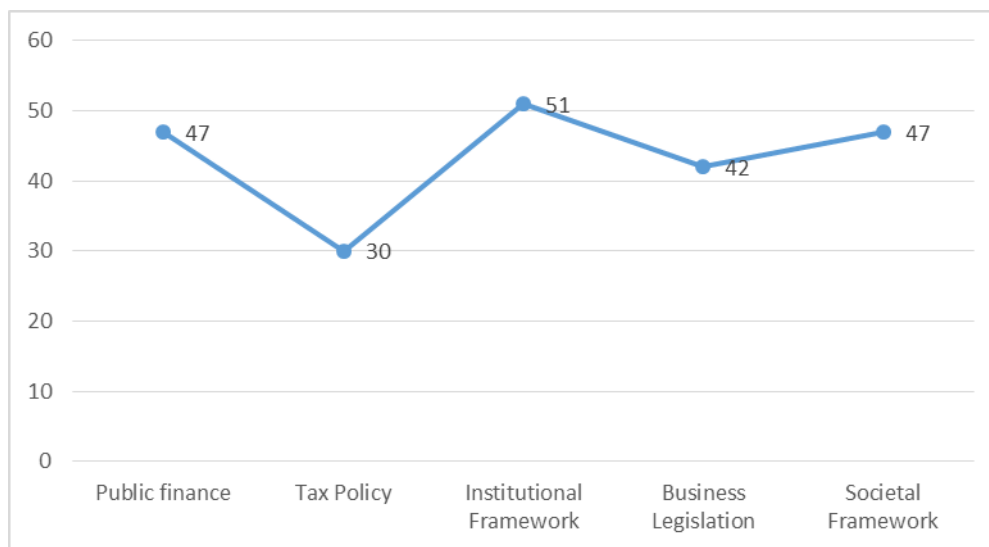


Figure no. 7 Romania's ranking on main components of government efficiency in 2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

The main business efficiency components ranking in 2021 is presented in the graph below.

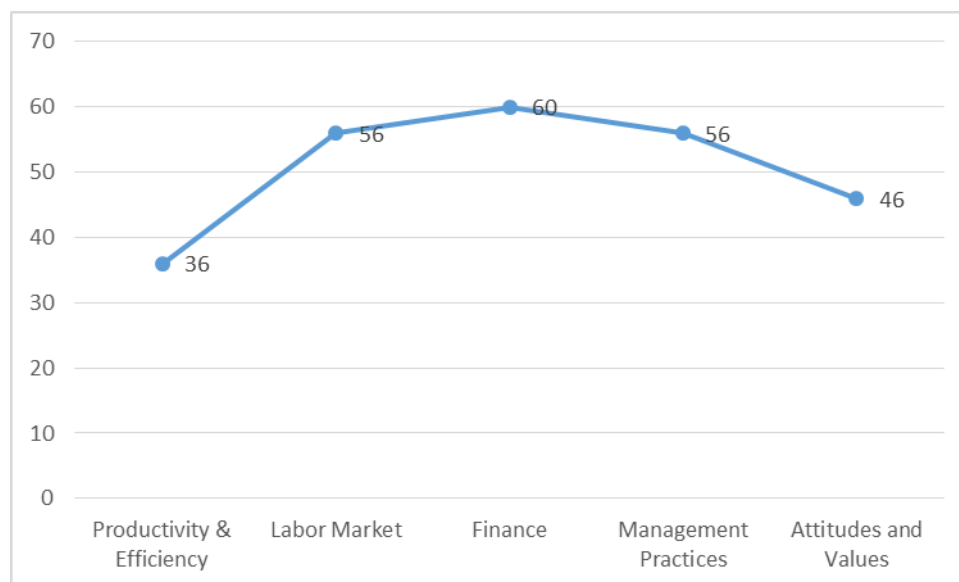


Figure no. 8 Romania's ranking on main components of business efficiency in 2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

The main infrastructure components ranking in 2021 is presented in the graph below.

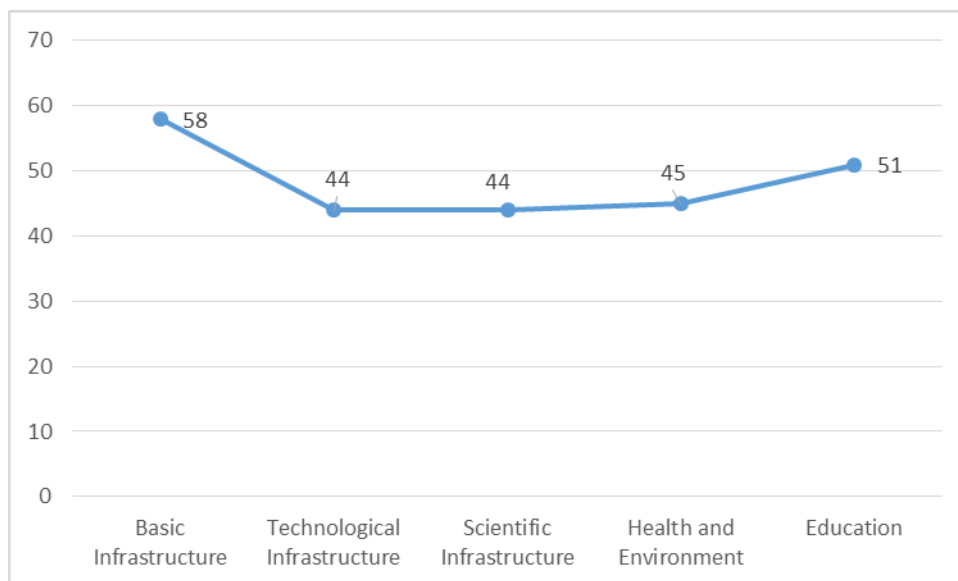


Figure no. 9 Romania's ranking on main components of infrastructure in 2021

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

Among the sub-indicators of Digital Competitiveness, we are best at:

- ✓ Internet Bandwidth (9th place);
- ✓ Number of Science Graduates (13th place) and
- ✓ Number of Women Researchers (14th place).

The following graph shows the evolution of the most important sub-indicators of digital competitiveness.

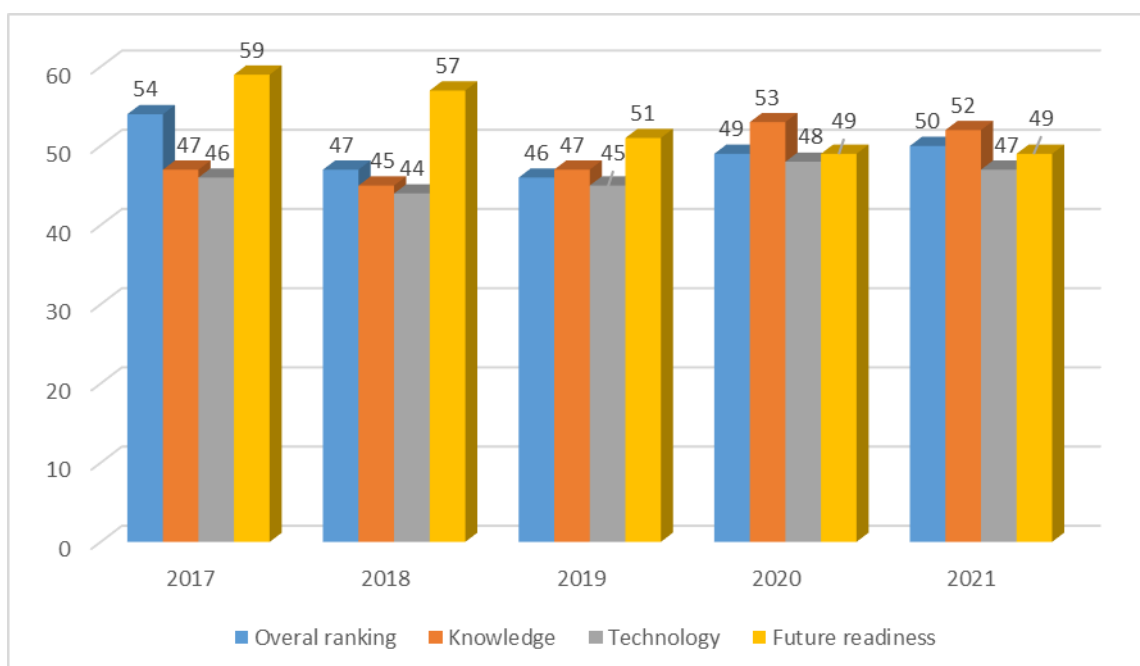


Figure no. 10 Romania's ranking on main components of digital competitiveness in 2017-2021 period

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

The main knowledge components ranking in the period 2017- 2021 is presented in the graph below.

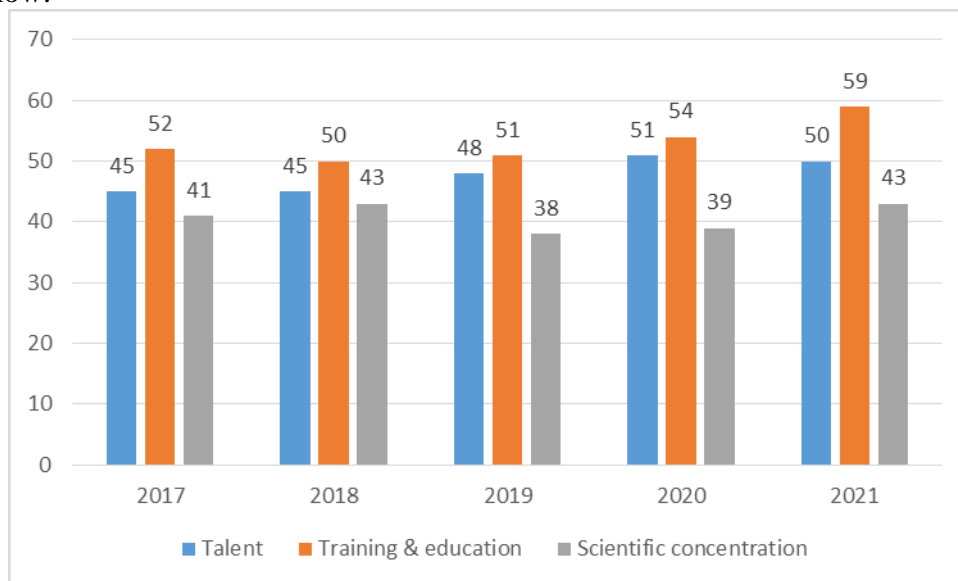


Figure no. 11 Romania's ranking on main components of knowledge in 2017-2021 period

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

In the figure no. 12 is presented the main technology components ranking in the period 2017- 2021.

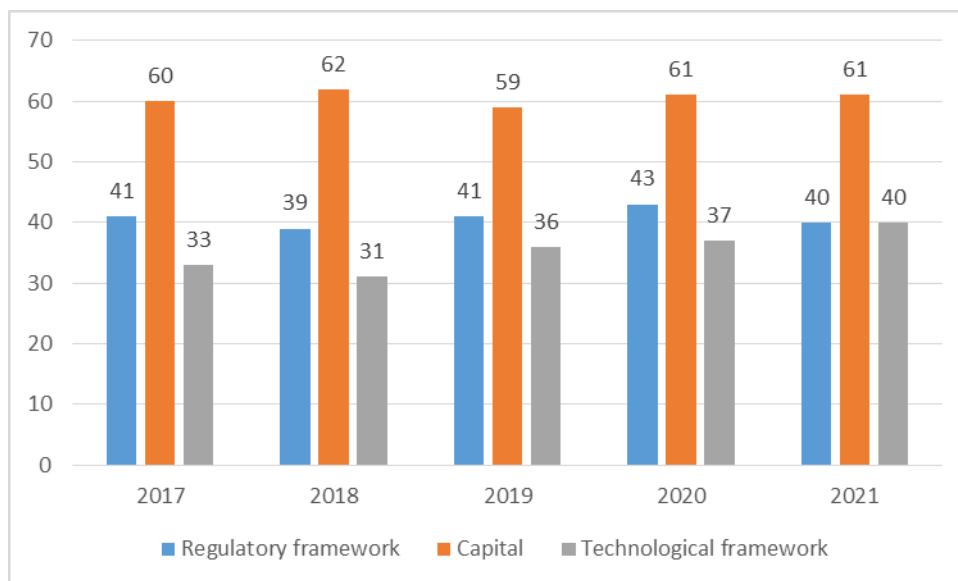


Figure no. 12 Romania’s ranking on main components of knowledge in 2017-2021 period

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

The main future readiness components ranking in the period 2017- 2021 is presented in the graph below.

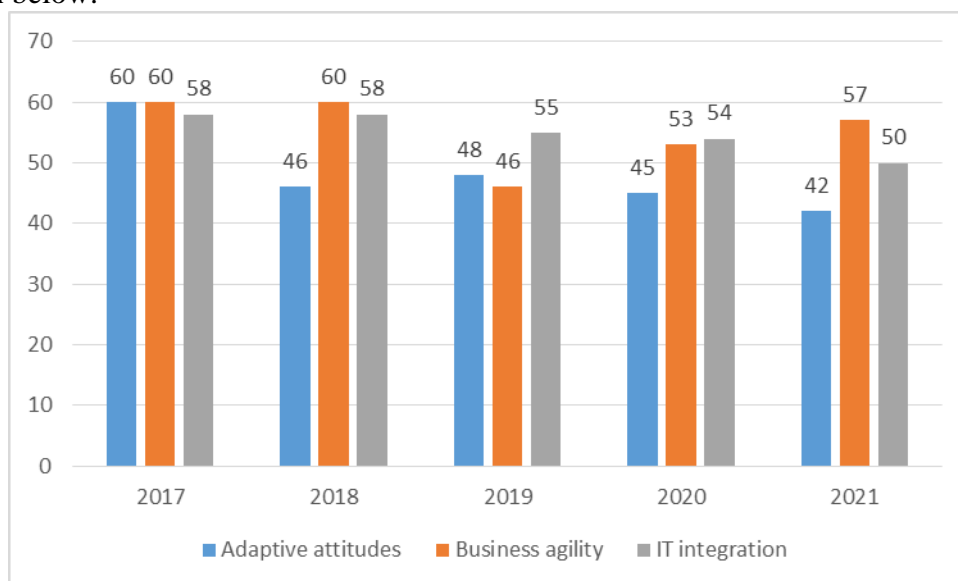


Figure no. 13 Romania’s ranking on main components of future readiness in 2017-2021 period

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

From the perspective of Talent Competitiveness, the indicators with which Romania ranks best in the ranking are: Living Cost Index (3rd place) and Exposure to Pollution

Particles (28th place). Unfortunately, in terms of indicators on education and integration into the labor market, two of the most important areas, our country ranks very weakly on the last positions:

- ✓ Education Management (63rd place);
- ✓ Apprenticeship (62nd place) and
- ✓ Finance skills (60th place), from 64 countries analyzed.

The following graph shows the evolution of the most important sub-indicators of talent ranking.

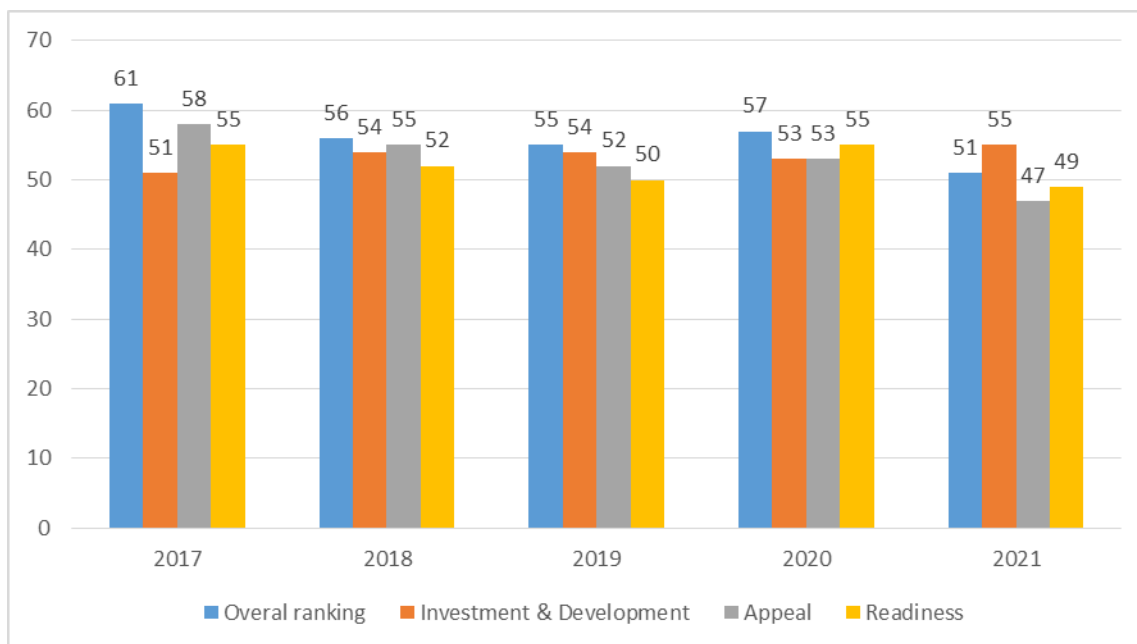


Figure no. 14 Romania's ranking on main components of talent competitiveness in 2017-2021 period

Source: realized by the author based on data from The World Competitiveness Yearbook, IMD World Competitiveness Center, 2021.

Romania's relatively weak rankings in the competitiveness ranking, especially in the mentioned indicators, are perfectly reflected in the poor management of the Covid-19 pandemic.

If Romania went through the first wave of the pandemic relatively well (the first months of 2020), without having a very large number of cases and deaths, which is certainly due to the restrictions that have been imposed, now it seems that we have completely lost control on the situation.

Romania has the highest number of deaths caused by Covid-19 in the EU in the last 24 hours (accessed on 14.10.2021), 304, more than 3 times more than the 2nd place occupant, Bulgaria, which has 98.

3. THE RECOVERY PLAN AND THE MULTIANNUAL FINANCIAL FRAMEWORK 2021- 2027

A surprisingly strong recovery in the first half of 2021 boosted economic activity in emerging markets and developing countries in Europe and Central Asia, with the regional economy expanding more than expected, with an economic growth of 5.5 % in 2021, according to the latest edition of the World Bank's Regional Economic Update (European Commission, 2021).

The recovery was determined by exports growth in the first half of 2021. In the same time the eurozone activity has rebounded, commodity prices has rose sharply and domestic demand recovered due to vaccination and support packages. However, the growth of exports could slow down as global and regional spread of the more contagious coronavirus variants, which, in turn, also slowed the recovery of domestic regional demand.

In 2022, regional growth is expected to slow to 3.4% as domestic and external demand stabilize and the pandemic stimulus diminishes. However, the outlook remains extremely uncertain, given the continuing pandemic, especially in the context of unequal access to and reluctance to vaccine. The regional recovery has been accompanied by a rapid acceleration of inflation and remains vulnerable to financial stress, which could be triggered by a sharp tightening of external financing conditions or a sharp rise in political uncertainty and geopolitical tensions. (De Vet & Nigohosyan & Ferrer & Gross & Kuehl, & Flickenschild, 2021)

A competitive business environment is essential for resilient, sustainable and long-term growth.

With the COVID-19 pandemic becoming a crisis that would not end in a short period, it became clear that further and more targeted action was necessary. Thus, the European Commission designed a substantial pandemic recovery instrument with the twin objectives of supporting the economic recovery as well as targeting the climate and industrial objectives of the EU. This led to the EC's ambitious proposal in May 2020 entitled NextGenerationEU (NGEU) for a €750 billion package borrowed from the financial markets. This package consists of grants financed by the EU budget Own Resources and loans repaid directly by the Member States. While Member States would repay the loans, which the EU budget only guarantees in case of default, the funding raised for grants would be repaid from the Own resources of the EU until 2058. (De Vet & Nigohosyan & Ferrer & Gross & Kuehl, & Flickenschild, 2021)

An overview of the long-term budget and the Next Generation EU recovery package is presented in the figure 15.

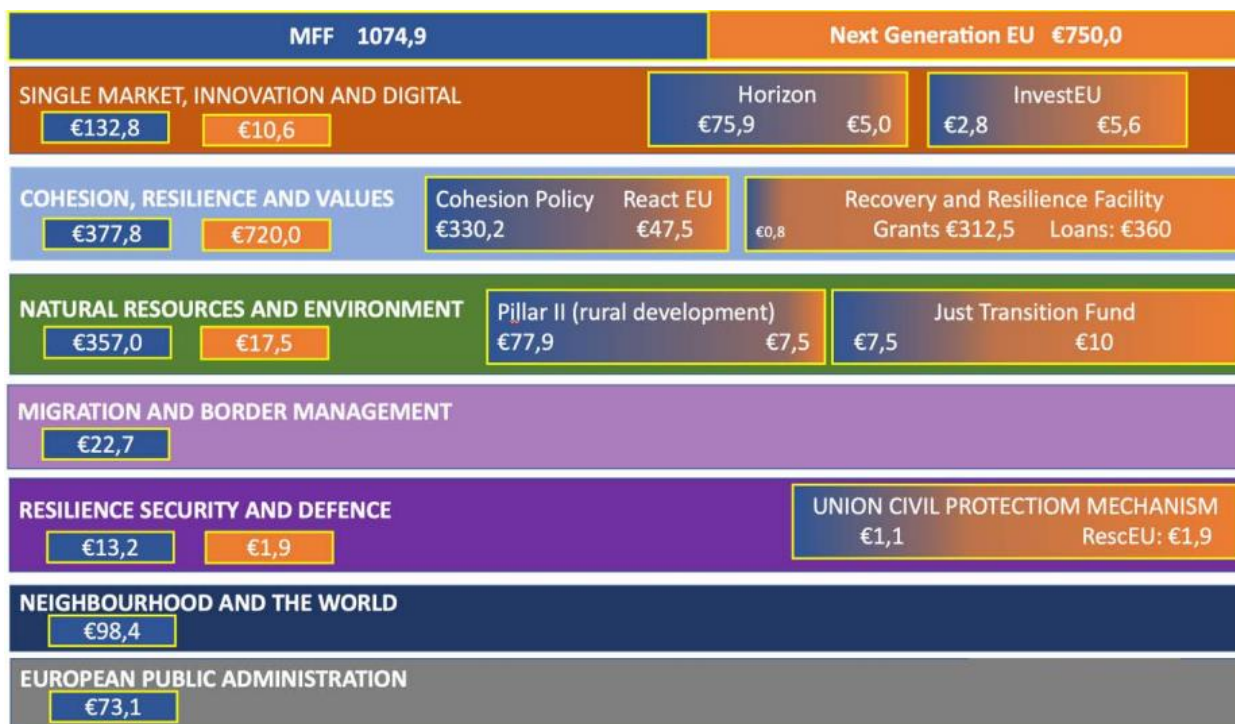


Figure no. 15 Structure and allocations for the MFF 2021-2027 and NextGenerationEU

Source: Jan Maarten DE VET, Daniel NIGOHOSYAN, Jorge NÚÑEZ FERRER, Ann-Kristin GROSS, Silvia KUEHL, and Michael FLICKENSCHILD, *Impacts of the COVID-19 pandemic on EU industries, Policy Department for Economic, Scientific and Quality of Life Policies Directorate-General for Internal Policies, European Parliament, 2021, pag. 56.*

4. COVID-19 ECONOMIC IMPACT AND RESPONSES IN ROMANIA

Despite the economic difficulties and health issues determined by increase budget spending for limiting the effects of the COVID-19 pandemic, public investment has offset in this period the activity reductions in certain economic sectors and allowed the continuation of economic growth for 5 consecutive quarters since quarter 3 2020, with an overall increase of more than 7% expected to be announced for 2021, as 2022 will also be a good year, with a GDP growth between 4.5-5% being forecasted. Net exports, were though influenced negatively, reflecting weak external demand and supply chain disruptions.

The consumption increased with 10.5% in the first 10 months of 2021, a trend that we forecast that will have a constant evolution on short and medium term despite the potential restrictions that could be imposed in order to tackle the spread of the Omicron variant.

Despite all this, the Romanian economy could not overpass the inflationary wave which manifested towards all around Europe and all around the world, reaching a year-on-year level of 7.8% in October.

In the same time the gas & energy prices recorded an increase of around 50%, fact that created many problems for the population and their well being.

The monetary policy rate has been increased to 1.75% and analysts expect it to reach a level of around 3% by the end of 2022. In this context the inflation is expected to be also high at least until the middle of 2022.

What are the government policies to support local businesses?

The Romanian government has attempted to mitigate the effects of the pandemic with the following measures (Fair Wear, 2021):

- ✓ The Romanian National Bank cut the key interest rate by 0.5 percentage points at the end of March and by 0.25 percentage points to 1.75% on 2 June 2020. The main purpose was to create liquidity for financial institutions and to announce the purchase of government bonds on the secondary market.
- ✓ A short-term debt repayment allowance was introduced for companies and individuals negatively affected by the pandemic. Consequently, the legislature introduced a relaxation of macro prudential regulation for credit institutions.
- ✓ A fiscal package for wage subsidies for temporarily laid-off employees and increased spending on medical equipment, amounting to about 1.2% of GDP (part of which was financed with EU funds).
- ✓ Tax deferrals, government loan guarantees with subsidised interest rates for small-to-medium enterprises (SMEs), and the extension of payment periods for utilities and rent. These measures mainly targeted the impact of the lockdown, although there is a lack of confidence that the impact will reach vulnerable people, especially those working in the informal sector.
- ✓ The government also launched a fiscal package of over €1 billion in EU grants for Romanian businesses affected by the pandemic. Measures to sustain the payment of technical unemployment, for employees sent into technical unemployment due to the coronavirus crisis, from the Labor Ministry's budget, through the Workforce Occupancy Agency – ANOFM. All employers who reduced or interrupted their activity, totally or partially, as a result of the effects of the coronavirus epidemic, but only during the state of emergency, could apply to receive the state aid for the payment of the employees in technical unemployment. Employees received a compensation of 75% of the basic salary corresponding to the workplace occupied, but not more than 75% of the average gross wage forecasted for 2020 – respectively 5,429 lei, according to Law no. 6/2020 of the state social insurance budget for 2020.

Besides the technical measures which were implemented in the period 2020- until July 2021, there weren't other new measures implemented in order to support businesses affected by the crises caused by coronavirus pandemic.

Since July 1, 2021, technical unemployment benefits aren't paid by the state budget, employers wanting to apply the technical unemployment measure being forced to pay for it from their own budgets.

According to Government Emergency Ordinance no. 211/2020, this facility of technical unemployment paid by the state budget was successively extended since the beginning of the pandemic until 30th of June 2021.

CONCLUSIONS

The pandemic has led to unprecedented distortions in supply and demand in the global, European, regional and domestic financial markets, as well as in national and European Union budgets.

While global and European countries are facing the third and fourth waves of the coronavirus pandemic, most likely the next period will be characterized by a high degree of volatility, and the economic recovery will depend on several factors, such as: the evolution of the health crisis, the US-China trade war, geopolitical developments, the effectiveness of

measures to support the economy, the response of financial markets, companies and consumers.

Internally, the authorities reacted promptly by implementing economic plots such as reducing the reference interest rate by the central bank (to the historical minimum of 1.50%) or launching a program to buy government securities on the secondary market.

The state also intervened with a fiscal boost estimated by the International Monetary Fund (IMF) at over 5% of GDP in 2019, benefiting from programs launched by the EU to combat the effects of the covid-19 pandemic (e.g. SURE).

In this context, we witnessed in the second quarter (the period of the state of emergency) the divergence between the significant adjustment of household consumption (by over 13% per year) and the continuation of a positive annual dynamics of productive investments (advance by over 2% per year).

At least so far, Romania has managed to maintain its investment rating by registering even a reduction in financing costs, although at the beginning of the pandemic we can say that there was an absence of fiscal space. From our point of view, the favorable evolution in productive investments in the first semester was generated by a low level of real financing costs, the increase of public investments but also by the development and convergence potential in the internal economy.

In the short term, we consider it extremely important to maintain the investment rating, and in order to ensure the performance of the domestic economy, public infrastructure projects under development must be completed, a new convergence model must be identified, public administration reform must be prepared, negotiations for accession to the Organization for Economic Cooperation and Development must be accelerated and regional integration projects need to be launched.

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