

Romania 2020 Agenda: Competitiveness for Development and Convergence

Policy Meeting

Bucharest, 26 November 2010
Romanian Parliament “Constantin Stere” Hall

Note: according to Aspen Institutes’ practice discussion in its policy panels and meetings are non-attributable.

Official opening

1. The conference was aimed at debating possible solutions for Romania’s current economic situation through the specific framework provided by the EU Agenda 2020 for growth and competitiveness. The purpose was to constructively reflect on a new economic model for Romania. Rather than finding a new strategy too establish the common ground for private and public sector experts for a core set of policies designed to achieve the growth and competitiveness objectives and insure a feasible and realistic convergence path.

Given the pressure of market and technology changes growth will have to follow a new model, one underpinned by competitiveness. For Romania this will result into a set of circumstances where comparative competitiveness cannot be based any longer on cheap labor force costs and proximity to retail markets. In order to return to growth and this time turn growth into development, economic and social, we must look at horizontal issues that touch upon several policy areas.

Romania does have some success stories, such as the IT and the automotive industries. While there are many approved development strategies, we must prioritize among them.

2. Education, training and skills will have a key role in underpinning Europe’s future economic development in view of meeting Europe 2020 objectives. Life-long learning is one of the pillars of flexicurity. People have to be provided with the right mix of skills so that they can adapt to an ever changing society. Young people must develop transversal skills which formal education cannot provide: language skills, digital literacy, entrepreneurship and decision-making. The Europe 2020 goals in terms of education are the following: to have a rate of school-leavers under 10% and a minimum of 40% of youths to graduate from third-level education. Romania is doing well regarding these targets. Lack of education can limit access to services and condemn people to a vicious circle of poverty. Universities should open their doors to more graduates and offer more degrees, fostering creativity and entrepreneurship as young people have to succeed in the knowledge society. Investment in education always pays dividends while education and training must be rethought.

First panel. Working Romania: Industrial Policy for Economic Growth and Competitiveness

1. Romania has a lot of economic and sector policy strategies. Priorities and clear guidelines are needed. These should be cross-checked for compatibility with objectives assumed by Romania as an EU member; otherwise, human and financial resources will be wasted without concrete results. Future public policies should be underpinned by the following objectives: the resuming of economic growth and readjustment; reducing the current account and public deficits; job creation; protecting the part of the population that was most severely hit by the crisis; improving the predictability of medium-term fiscal policies; ensuring long-term sustainability of public finances; firm implementation of objectives following from agreements with the IMF and the World Bank.

2. The crisis has shown Romania's weaknesses. Romania must decide what it wants to do "when it grows up". The many strategies lack support. In particular what is missing is the political will to prioritize and implement them properly. The country must also choose its policies in accordance with the Europe 2020 goals. Romania has framework challenges; public administration is in dire need of reform. Before devising a proper industrial policy, Romania must tackle other important issues: paying its debts on time; predictability of the legal environment; lack of adequate planning instruments; Romania is very process driven; Romania has lots of rules and regulations but lacks concrete targets. Politicians usually grant funding to decaying industries because they get more votes instead of funding more deserving industries. This is not just a Romania situation but its circumstances and condition are making it a critical issue.

3. Consistent investment in infrastructure is a sure way to bridge the economic gap with other countries. There is need for physical infrastructure (airports, roads). There should be fewer priorities that are financeable and far more consistency in investments. The need for infrastructure is obvious and no further debate on this is needed. Rather on the priority lines.

Better infrastructure would also improve the local supply chain and increase efficiency in local production factors. However, the development of infrastructure is also linked to corruption. This ties into administrative and justice reform but more importantly it is linked to political reform and credible action combating the clientele relationship hindering actual performing public and private investments.

4. There is need for stability, be it fiscal, micro/macroeconomic or political. Predictability for investors is very fragile. Romania needs to improve the legal framework and the functioning of the judiciary. It also needs to restore confidence both towards its citizens and the markets. This can be achieved through strong institutions and a clear agenda. A public private approach is need and can be influential but foremost there is a need to prove delivery on a few items. Better collection along with an improved administrative capacity is required. The efficiency of public spending should be analyzed and recommendation should be implemented effectively. The government should have a unit for monitoring policies and policy commitments along multi annual programs and across governments.

5. Romania lacks in strategic vision and in a sense of urgency for reform. It has to give a chance to the private sector to do more for the economy. The private sector does not have a

constant unit/interlocutor in the government to which it can give its feedback. Also, employers should be more involved in the social dialogue with the government and trade unions. An advance system of preparatory dialogue should replace the often the last minute or post fact style of negotiating with economic and social partners. Romania's future depends on the FDI it manages to attract, but will have to compete with countries from all over the world. Local capital must be linked to foreign capital. Recovery also depends on the country's own capital and there should be policies in places to improve the status of our own capital. A great source of funding which must be used is EU funds.

Second panel. Work Force Romania: Competitiveness and Growth Enablers

1. Competitiveness and development are intertwined. The crisis has presented an opportunity to make changes. The success of labor policies depends on the government. Consistent social dialogue is necessary for the government to devise good labor policies. However, there is a lack of the necessary leadership and focus in order to develop such policies. The lack the infrastructure for the development of effective labor policies and of strong and credible social partners to take part in the social dialogue is both dramatically curtailing any employment strategy. The Romanian labor force is no longer qualified as it is no longer adapted to the market. Social dialogue can be an environment in which the different parties can debate what qualifications are needed for today's job market. The government does not have all the answers. This is why at national and local level there is a need for a renewed partnership.

2. Romania lacks a single, long-term project. As a consequence the direction lacks the clarity needed for both public and private investment. Romania should set challenging targets so that absorption of funds would be more effective. Research and innovation should be encouraged through funding. The country has the necessary social, cultural and technological creative capital. We must attract funds through research projects that are unique and marketable. Investments in research lead to development. We have to capitalize on the potential of PPPs with higher education institutions. The growing investment in education is not giving proper returns because it lacks competitive mechanisms, flexibility and the effective conveyor belt linking it to markets of products, services and skilled labor. The training of trainers should also be tackled and moved beyond just the technical skill to marketable skill packages. Even a modicum of entrepreneurial skills and empowerment can make a huge difference. However, we must address the issue of policies regarding education. The current policy focuses on university education but not on primary education. Moreover, the education system is not focused on forming skills for the average student. Romanian education is also informative, not formative. The government must also think about the type of citizens they want to form. There is currently a lot of fragmentation and people do not have a sense of ownership regarding their community, nor do they wish to be involved in its development.

3. The Romanian labor force has a good potential. Employers must take on the role of trainer of the labor force. However, the Labor Code does not provide for much flexibility in an employer-employee relationship. The quality of labor force adds to competitiveness. Cheap labor does not translate into competitiveness. The new development model should aim at curbing unemployment and the migration of qualified labor force. A labor force strategy requires a review of the regulatory framework linking education, employment and economic development. This can only be achieved through consistent and substantive dialogue, lasting regulatory framework and targeted investment. The private sector needs not be just an end user and/or concerned party but a stakeholder. The decision makers at political and

administrative level shall not be just authority but also stakeholders. Communities, urban, rural and regional shall also be equal and informed participants and have a say and stake in the process. This is the only way growth can return and importantly the only way growth can be turned into not just profit and economic but also social development.

The financing for this sort of workforce reform is to some extent available. Not using EU social funds and EU structural funding is akin to being reckless. Romanian authorities at all level shall work with the private sector and communities to establish clear priorities and use available EU funding to address budgetary shortcomings. The entire logic of financing convergence is to serve this purpose. This shall be considered as Romania enters negotiations for the EU's next financial package 2013-2020. Its negotiating position depends less on cabinet decisions and more on steps on the ground addressing the effective absorption of EU financing.

Third panel. Financial Romania: Access to Capital and Credit as Tools for Economic Development

1. Competitiveness is brought about by investments and the development of the real economy. Substantially less external capital is entering the Romanian economy. The source of investment has moved from private capital to IFOs and the EU Commission as lenders. The country is competing with countries from all over the world for foreign investments. The government should stimulate internal savings and use savings towards sectors that bring added value. Romania has a very low saving capacity (around 33 billion euro). In order to attract foreign capital, Romania must meet the following criteria: have decent macroeconomic indicators; deepen financial markets; have a good functioning of the judiciary; invest in infrastructure and the flexibility of the labor force. Moreover, Romania must curb waste of finances of local administrations through legal means. There should be legislation design and enforced in order to compel local leaders to prioritize spending according to the needs of the community. Such a move could lead to stability that would enable development.

2. Romania must also rebuild external and internal confidence. The many tax changes that have been implemented contribute negatively in this respect. While confidence is low, crediting will also be low.

3. Romania and Europe are at a crossroads. Fundamental values which underpinned our system are question. Perhaps it is the unsustainable social model that is stifling growth in Europe. Growth will never have the same rate but it can be sound again. We have to change our attitudes towards a realist one. Romanian elites should work together towards a common project for the country.