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**Article**

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# THE COMPATIBILITY OF ROMANIA'S INDUSTRIAL POLICY WITH THAT OF THE EUROPEAN UNION

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**Abstract:** *Romania's position as one of the EU member states brought new challenges in terms of industrial policy, in order to respond to the necessity of bringing the competitiveness level of the Romanian economy close to the average level of the European states, by respecting the free trade principles of the European Union. Furthermore, in the near future Romania should be able to contribute to the achievement of the objective of transforming EU in the most competitive economy of the world. In this order, a market – oriented industrial policy is necessary, following the European industrial policy and the sustainable development concepts adopted by the European Commission, and based on the concept of competitiveness. The general purpose of a balanced economic growth, sustainable development and improvement of the economic competitiveness requires industrial policies created and implemented in tight connection with other relevant economic policies, such as the competition policies, those aiming for a functional business environment and those encouraging the SME development and attracting FDE, the policies in the education and research and development fields, the structural and regional policies, the commercial policies, the sustainable development and environment protection policies and those regarding employment and social cohesion.*

**Key words:** Industrial policy, competitiveness, European Union, competition policy, structural policy, regional policy, sustainable development

**JEL Classification:** L52, F02, F15

For Romania, becoming a member of the European Union involved not only benefits and opportunities, but also obligations related to the supplementary efforts required for economic development and enhancement of the industrial production competitiveness in order to reach a level comparable to the European average and contributing to the achievement of the European objective as set in the Lisbon Agenda: transforming EU in the most competitive economy of the world. In this order, a market – oriented industrial policy is necessary, following the European industrial policy and the sustainable development concepts adopted by the European Commission, and based on the concept of competitiveness. The European Union adopted a coherent attitude related to the

competitiveness policies, by grouping the Internal Market, Industry and Research in one single council, through a decision of the Council from Seville in June 2002.

In Romania, as consequence of the integration and adaptation of the economic policies to those of the European Union in view of enhancing the economic performances at a national level, the necessity of a coherent industrial policy became obvious. Therefore, in 2004, the document titled “Industrial Policy of Romania 2005 – 2008” was issued, establishing the main directions for action for the industrial policy for this period. The fundamentals of the industrial policy were based on encouraging the horizontal factors determining competitiveness: human capital, research, innovation, entrepreneurship, preservation the environment.

The industrial policy objectives for the determined period were established in correlation with the stipulations of other national economic policies and with the European guidelines. The main objectives of the Romanian industrial policy were defined as followig (Croitoru, Russu and Tarhoaca, 2002, p. 2):

- Enhancing competitiveness;
- Increasing the role of research, development and innovation;
- Promoting a sustainable management of natural resources and environment protection;
- Improving professional training and employment;
- Developing the cooperation and industrial services as well as the public – private partnership.

In the same time, the industrial policy priorities on medium term were defined (Croitoru, Russu and Tarhoaca, 2002): applying the industrial policy according to the specific necessities of each sector, improving the legislative frame favoring industry as well as the synergy of the different policies with direct impact on industrial competitiveness.

The same document established the economic policies’ program for the period of time taken into consideration, which assumed the legislative adaptation and creation of the institutions compatible with those of the EU, implementing and monitoring the harmonized legislation, improving the business environment, diversifying and modernizing the bank services, reducing taxation related to labor costs, moving forward to the informational society, adopting a coherent package of policies aiming to continue structural adjustments and improve competitiveness, creating an integrated system for controlling the industrial pollution, starting the main infrastructure projects and adapting the research and development system to the European operational structures.

The structural adjustments taken into consideration concerned the development of the industrial sectors insuring high added values, the development of industrial clusters, technologic

parks, regional development and SME encouragement, the modernization of the organizational structure of the companies as well as that of the management, environment rehabilitation, the stimulation of the cooperation between the local companies, increasing the role of innovation and technological research and starting some programs for producing and utilizing energy from renewable resources.

The general purpose of a balanced economic growth, sustainable development and improvement of the economic competitiveness requires industrial policies created and implemented in tight connection with other relevant economic policies, such as the competition policies, those aiming for a functional business environment and those encouraging the SME development and attracting FDI, the policies in the education and research and development fields, the structural and regional policies, the commercial policies, the sustainable development and environment protection policies and those regarding employment and social cohesion.

The competition policy “concerns those instruments that insure the market’s fundamentals and facilitate the development of efficient and competitive companies”(Negrescu and Oprescu, 2004, p. 4). Succeeding in such policies is one of the main factors of a functional market economy and a strong internal market. The competition policy must take into consideration the regulations concerning the incentives granted by the state in conformity with the European Acquis, as well as the provisions of the Law of Competition no. 21/1996 and the secondary legislation, following the European guidelines and must insure the necessary support for the Competition Council.

The competition policy objectives (Croitoru, Russu and Tarhoaca, 2002) concern the following aspects:

- strengthening the authority of the Competition Council and that of the Competition Office, in the purpose of increasing the capacity of these organisms to issue and implement the specific regulations;
- improving the legislation concerning the state incentives, according to the European Acquis;
- revising the legislation regarding the industrial parks, in conformity with the competition regulations.

The actions meant to encourage competition concern the limitation of the action area of the monopolies, continuing the pricing liberalization and avoiding anti-competition practices and economic concentrations.

One of the main factors acting in a decisive manner over the growth potential of industrial competitiveness is a viable and friendly business environment. Insuring a stable business environment, favoring a functional market economy, is one of the obligations that Romania assumed

during the integration process. Important steps have been made in this sense, by improving the legislative and institutional frame, increasing the investment flow, reducing bureaucracy and fighting corruption. However, Romania is still far from having a transparent, predictable and attractive business environment.

Developing a stable business environment is an objective that assumes a series of measures for increasing transparency and improving the Government – business environment – civil society dialogue, estimating the regulations' impact over the business climate, simplifying the administrative procedures, implementing a coherent system to monitor the foreign direct investments volume, implementing the corporate governance principles and strengthening the involved institutions.

One of the policies with major impact over the industrial policy actions is that of Small and Medium Enterprises encouragement, this sector having a special significance for the market economy development. SME are characterized by an enhanced capacity of reaction faced to the market stimuli and of adaptation to the economic structural changes. The Romanian authorities' policy in this field, so far, lacked coherence, the supportive periods being followed by those of total lapse.

A coherent strategy on the SME encouragement was adopted by the Government in 2001 only, through the "Action Plan to Eliminate Certain Barriers in front of Small and Medium Enterprises". The plan's objectives aimed to simplify the registration and licensing procedures for new SME, to improve the legal environment, to reduce and simplify the taxation system, to promote the access to financing resources and public contracts and to supply an informational system for SME.

The priorities (*Industrial Policy of Romania 2005 – 2008*, 2004, p. 8) for SME encouragement concern the creation of a favorable business environment, the development of the competitive capacities of SME, improving SME's access to financing resources and to the external markets and promoting the entrepreneurship and increasing management performances.

For implementing the SME encouragement measures the National Agency for Small and Medium Enterprises and Cooperation was created (ANIMMC), acting as national coordinator for implementing in Romania the European Book for Small Enterprises and the European multi-annual program for enterprises and entrepreneurship, particularly for SME.

Another factor influencing the industrial policy concerned the privatization and restructuration measures, which concerned completing the privatization processes for the state-owned companies, monitoring the privatization contracts, restructuring the activities for maximizing

their efficiency and modernizing and optimizing the technologic facilities from the potentially competitive industrial units.

In connection with the industrial policy and that for improving the business environment is the FDI promotion policy. Attracting foreign capital is possible by promoting Romania's image as a destination for foreign investors and assisting the foreign partners in the initial phases of FDI. The Romanian Agency for FDI was created with the purpose of issuing the FDI promotion strategy and an adequate legislation, and acting as a contact point for the new-coming and existing investors.

The development of education, human resources and social cohesion policies plays an important role within the industrial policy efforts. The main measures concern encouraging workers mobility, insuring a balance between the offer and demand of labor, developing the human resources management and, finally, insuring specialized training by a tight cooperation between the educational system and the business environment. The strategy for increasing the employment rate concerns the human capital development, creating new working places, encouraging both workers and companies' adaptability to the economic changes.

The social cohesion strategy involves actions aimed to attract social partners in the process of elaboration and implementation of the policies, by permanently consulting the economic operators and social dialogue partners, obtaining their support for implementing the structural adjustments and insuring an efficient active social protection system.

One of the politics with a considerable influence over the industrial policy is that encouraging research – development – innovation activities and infrastructure's development in order to evaluate the conformity of the industrial products. This factor is determinant in the efforts of reducing the development gap between Romania and EU and one of the main factors in increasing productivity and competitiveness.

An evaluation report (*Policies in the fields of Research, Technologic Development, Innovation. Romania's RDI policies in the attention of the EU member states (II) – the final evaluation report from the evaluators team from EU member states, 2005*) from a delegation of European experts concerning the research and development policies in Romania compared to Lisbon Agenda underlined the challenges related to the insufficient human resources basis for scientific and technologic research, the lack of adequate infrastructure, the insignificant connection between industry and R&D activities and the absence of a functional institutional and legislative frame. The same report underlined the necessity of identifying some main directions in the research activity and the main development channels, of structural improvement and increased concern over academic research.

The specific priorities (Croitoru, Russu and Tarhoaca, 2002) in the R&D field concern the capacity of defining and implementing coherent policy measures, finding the appropriate mechanisms for projects' identification, evaluating and granting the necessary funds, harmonizing the legal, institutional and procedural frame according to the European regulations and stimulating the modernization of the technical and informational infrastructure for research and development.

Sector assistance and regional policies are some other factors influencing the industrial policy and one of the most sensitive fields. Sector policy is defined and implemented by the Ministry of Economy and Commerce and concerns the encouragement of the strategic alliances with technologic, industrial, economic and financial basis, the industrial clusters based on international specialization and complementarities with the European countries, the development of the internal market for industrial products, sector assistance for high added value products benefiting from internal resources (IT, electro-technical industry, auto components, pharmaceutical industry, furniture industry, technology and equipments for the food industry and forest industry).

The process of defining the sector policy must take into consideration the comparative advantages of Romania from the time being and the possibility of developing new comparative advantages in fields with a high added value. Romania detains comparative advantage in the labor field, some exploitable natural resources with competitive costs as well as in the agricultural and forest potential, in the existent industrial infrastructure and in the geographic position.

The regional policy priorities (Croitoru, Russu and Tarhoaca, 2002) concern the improvement of the institutional frame at national and regional levels, improving the management capacities of the institutions involved in the regional development products, increasing the absorption capacity for structural funds and the correlation between the legislations regarding industrial parks, disadvantaged regions, free areas and special regions.

Accomplishing the industrial policy objectives is directly related to the commercial policy for exports encouragement without breaching the international agreements on free trade. The specific measures (*Industrial Policy of Romania 2005 – 2008*, 2004, p. 10) concern the extensive use of the facilities granted in the free trade arrangements and participating at the WTO negotiations for free trade, identifying the niches in the international market for the enhancement of Romanian exports, insuring the necessary support by extending the consultancy offer, offering training in the international trade field and insuring guaranties against commercial and non-commercial risks.

Finally, another factor influencing the industrial policy objectives regards the environment protection and the concern for sustainable development, according to the requirements of the European Union in this field. The specific objectives (*Industrial Policy of Romania 2005 – 2008*, 2004, p. 11) in this direction concern the integration of the environment protection requirements and

natural resources control in the sector and regional strategies and at company level, implementing the best available technologies and the “clean technologies”, rehabilitating the areas affected by historic pollution and creating and developing a market for the services and technologies for waste treatment and efficient use of energy.

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