The New Pattern of European Governance and Its Influence on Business Environment

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Abstract: Deterioration of economic situation at global level showed the necessity of finding solutions for reducing the spread of negative effects between Member States. The widening and intensification of surveillance's mechanisms of Member States' macroeconomic developments seems to be necessary in the context of increasingly strong interconnection of European economies. Currently, a transition phenomenon may be observed from the idea of government, as a primary responsibility of a State, to the idea of European governance, which is accomplished through networks of institutions and individuals, as well as between technological entities that act in partnership and show mutual trust. Effective European governance is in fact an essential element of participation in the global economy. Given the development of European Union 2020 strategy "*Europe 2020: a strategy for smart, sustainable and inclusive growth*", this paper tries to explain the necessity of the new model of economic governance proposed at European level.

Keywords: surveillance's mechanisms; government versus governance; Europe 2020

1 Introduction

Deterioration of economic situation in the entire world determined the finding of solutions for decreasing the negative effects that rapidly spread among Member States. The case of Greece fully revealed the vulnerability of Economic and Monetary Union.

High levels of public debt and unbalanced budgets are problems common to many Member States, including beyond those unkindly labelled PIGS – Portugal, Italy, Greece and Spain. Only three Member States emerged from the downturn without crossing recession since 2008: Sweden, Slovakia and Poland.

The enlargement and deepening of surveillance mechanisms of macroeconomic evolution of Member States appears to be indispensable in the context of more intensive interconnection between European countries.

The intensification of fiscal policies' coordination, the enlargement of macroeconomic surveillance in euro area beyond the fiscal policy and a better integration of structural reforms represent some recommendations made by European Commission, as solution to overcome the economic crises. Nevertheless, all of these recommendations may be put in practice only in a framework of global system of **economic governance**.

2 Romanian business environment: an overview

Increasing the economic dynamism together with job creation are the essential targets of European Union for near future. The EU entrepreneurship policy aims to create a business environment that spurs ideas and encourages new business development.

Is Romanian business environment close to European desire?

Romania, as well as Greece, Slovenia and Finland are crossing the recession period. Although, a study realised by EuroFound[1] shows that Romania recorded the highest number of announced job gains (4,895 jobs) ahead UK (3,785 jobs), Ireland (2,930 jobs) and Slovakia (2,890 jobs). In the same time, UK is on top of the list of job losses (10,318 jobs), followed by Italy (7,245 jobs), France (5,948 jobs) and Poland (4,754 jobs). For example, in the retail sector, the German food retailer Kaufland announced 500 new jobs with the opening of new stores in Romania. In addition, Computer Generated Solutions Romania announced the creation of 500 jobs and its call centres in Bucharest and Brasov. The sector of car manufacturing recorded signs of recovery, too. Although, Draxlmaier Romania, a section of the German manufacturer of motor vehicle components, announced its reorganisation plan envisaging 2,100 job cuts by the end of 2010; the production in motor industry rose in Romania by over 60% on the year before; and the Continental Matador Rubber announced the expansion of its production sites in Sibiu and Timisoara and the creation of 1,400 jobs, mainly in R&D through an investment of €70 millions in Romania. Therefore, we can say that Romanian economy is timidly moving forward.

Accordingly with “The White Charter of SMEs in Romania” elaborated by National Council of Small and Medium Sized Private Enterprises in Romania in 2010, the **main opportunities for doing business in Romania** are domestics sales growth (68.01% of SMEs); acquisition of new products (51.38% of SMEs); discovering new markets (46.94% of SMEs); extending the partnerships in business (16.43% of SMEs); using new technologies (26.4% of SMEs); getting a grant (16.43% of SMEs) and increasing exports (9.97% of SMEs). The **main difficulties for doing business in Romanian**, identified by the same study, are: decreasing of internal demand (66.2% of SMEs); the exorbitant taxation policy (54.61% of SMEs); bureaucracy (47.07% of SMEs); inflation (36.7% of SMEs); corruption (36.09% of SMEs); the difficult access to credit (30.51% of SMEs); delays in receiving bills from private companies (26.8% of SMEs); excessive controls 26.13% of SMEs); high borrowing costs (25.86% of SMEs); increase labour costs (20.34% of SMEs); hiring, training and maintenance of personnel (19.06% of SMEs); the relative instability of the national currency (18.25% of SMEs); competition from imported products (18.11% of SMEs); poor quality of infrastructure (15.35% of SMEs); non-payment by state institutions (12.32% of SMEs); low export demand (6.94% of SMEs); obtaining the necessary training and consulting (3.5% of SMEs); knowledge and adoption of communitarian acquis (2.9% of SMEs).

Another ticklish point of Romanian business environment is the **underground economy**, which refers to those economic activities that takes an irregular shape. For example, tax evasion, working on the “black market”, or cases in which although all workers are legally employed, they work unpaid overtime.

Figure1 offers a reflection over the weekly hours worked by fulltime employees in their main job. As it may be observed, the longest time worked is registered by Romania, with 41.2 hours per week, and the shortest by Finland 37.3 hours per week.

The underground economy also refers to withholding the income from different activities or declaration of smaller amounts. Also, it includes those activities that are not clearly specified in legislation, such as baby-sitter.

[1] European Foundation for the Improvement of Living and Working Condition

The underground economy is positively influenced by non-economic factors such as social networks between local entrepreneurs; high availability of a strong social capital; the lack of institutional trust; interest areas between local and regional government associations and syndicates.

In Romania the underground economy is developing because the state government is formal and weak and the legislation is easily circumvented.

Still, a system of governance based on underground economy has the potential to enhance competitiveness. Carrying some activities without legal form, favours the development of an organizational model characterised by a high degree of flexibility among workers, firms and suppliers. Also it provides low cost of labour factor. On the other hand, this competitiveness may be for a short period of time and it should be reflected in poor quality of goods but also in the reduced capacity of production and reduced access to professional training.

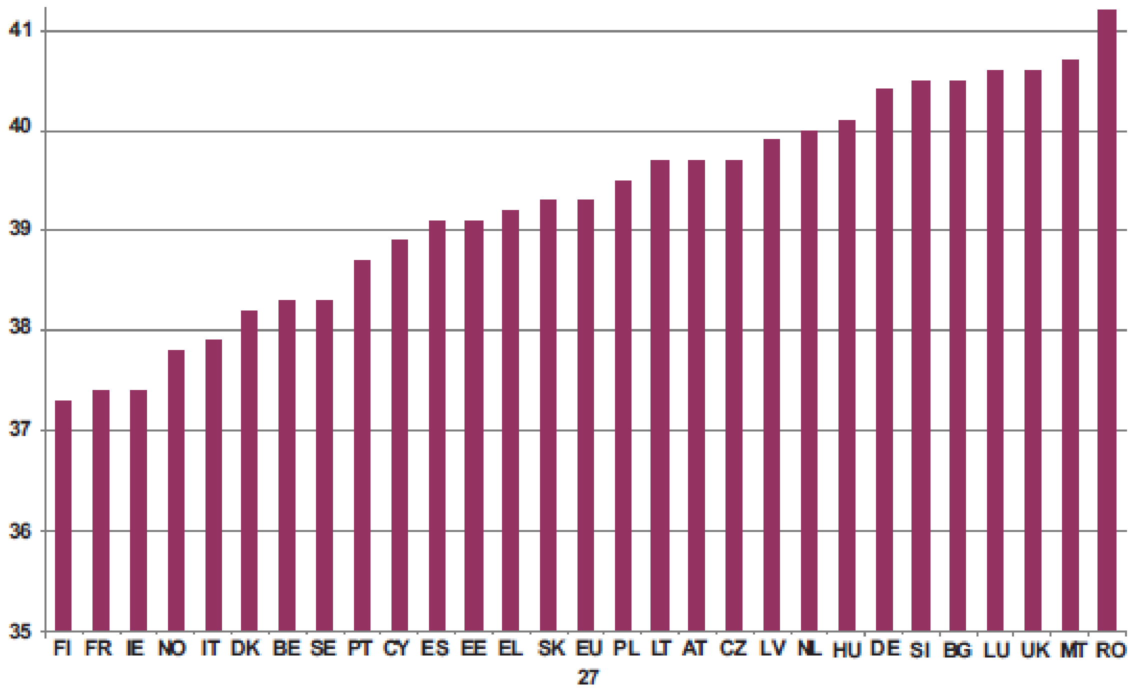

Figure 1 Average number of weekly hours worked by fulltime employees, 2009

Source: *Eurofound News*, Issue 8, September 2010

The underground economy has a drastic influence not only over the macroeconomic indicators but also over the future of business environment and the trust of potential entrepreneurs and investors in doing business in Romania.

In the specialized literature it is well known that in Eastern Europe the underground economy is carrying out by: tax regime; institutional framework; the quality of local and national government and also by the attitude of society.

Figure 2 Business environments in the context of underground economy

As it may be observed in figure 2, the **tax regime** plays a top level role in influencing the business environment and it is expressed by a high level of taxes or by the complicate system in which the tax are collected and also, by the permanent changes regarding the amount or the terms and sometimes even by the retroactive application.

The **national framework** refers to ambiguous legislation and its transitional character and also to the permanent changes that occurs in designing the institutions and the legal framework in which these should operate – all of this busting inefficiency.

The **attitude of society** arises from old mentality that represents an obstacle to the smooth functioning of new institutions and also from the lack of confidence in the state institutions that may determine the potential tax payers to ignore the authorities. But at the bottom of business environment is the **quality of local and national government**.

The low level of state authority arises from the lack of financial and human resources in the state administrative organisms and also from the corruption and the incompetence of government among officials responsible for tax collection. Decreased efficiency and low effectiveness in applying the state tax are the results of lack of government attitude towards economy.

3 Government *versus* governance

Today, a smooth transition from the idea of **government**, as the main responsibility of a state, to the idea of **governance** that is accomplished by networks of institutions and individuals, as well as, by networks of technological entities which act in partnership and show mutual trust, breaking, in this way, the old and conventional communication's barriers.

Effective governance is in fact an essential element of participation in the global economy.

The term of **governance** refers to a new manner of government that overstep the bounds of the state. The global dimension of governance involves the idea that society solves its problems by acting together, in a joint manner. Good governance consists in solving the society's needs by offering high quality of governmental services, by coordinating the activities between different administrative levels in order to increase the global efficiency and to minimize the conflictual actions.

Obviously, there is a fundamental change in the relationship between the state and its people. The individual is now more important and its actions can have a big impact over the entire system.

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Smart growth means to improve the EU's performance in *education, research & innovation* and *digital society*.

Sustainable growth means to build a *competitive low-carbon economy*, to *protect the environment*, to develop *new green technologies*, to *increase energy efficiency*.

Inclusive growth means *more and better jobs*, *investments in skills and training* and *modernising the labour market*.

Small and Medium Sized Enterprises are generating the majority of value added in EU economy (56.9% in 2006) and are employing the most of the workforce int non-financial business economy (around 67.4% in 2006). As it may be observed in the following graphs, the micro-enterprises are playing a specific role in providing employment, nearly as many persons as the large enterprises.

According to Eurostat, among industrial activities, the value added by SMEs in 2006 was very important in construction (82.8%), in the sector of fabricated metal products (78.2%), in the manufacture of wood and wood products (76.2%). SMEs contribution in value added terms was less than 10% for tobacco manufacturing as well as for post and telecommunications.

Figure 4 Value added and employment by size-class,

non-financial business economy, EU-27, 2006

Source: (Eurostat, 2010) *Key figures on Europe*, Luxembourg: Publication Office of the European Union

The competitiveness and development of businesses is included in 2020 Europe's **flagship initiative regarding Innovation Union**:

- ✓ Access to EU programmes must be simplified and their leverage effect on private sector investment enhanced. Simplifying the procedures and conditions and making them coherent with each other will facilitate the access of SMEs to the R&D programmes.
- ✓ Cooperation between the worlds of science and the worlds of business must be enhanced as well and the obstacles must be removed and replaced with incentives. Supporting the whole chain of research and innovation, from the blue sky research to market uptake, must be strengthened and made more coherent in order to help SMEs to turn the results into new products and services.

- ✓ SMEs’ access to finance must be improved and the barriers for entrepreneurs in bringing ideas to market must be removed.
- ✓ SMEs must be helped in developing their own distinctive approach of innovation in business models, design, branding and services. The creativity and the diversity across European citizens must be turned to account because it represent a huge potential for new growth and jobs, especially for SMEs;
- ✓ Partnership between major companies, SMEs, public sector, the citizens must be improved because it will determine the active participation in reaching the Europe 2020’ targets.

Therefore, the **future EU research and innovation programmes** will be designed in a new manner in order to ensure the simple access and stronger involvement of SMEs. By 2014 is expected that Commission together with European Investment Bank Group, national financial intermediars and private investors will develop a mechanism that solves the following critical gaps:

- ✓ Investments in knowledge transfer and start ups;
- ✓ Venture capital for fast growing firms expanding on EU and global markets
- ✓ Risk sharing finance for investments in R&D and innovative projects
- ✓ Loans for innovative fast growing SMEs.

Mr. Jose Manuel Barroso announced in front of European Parliament that for 2020, 3 millions of green jobs are expected to be created and he proposed the extension of financial framework from 7 years that is today towards 10 years for the next programming period. Also, an amount of 38 billion euro is expected to decrease bureaucracy.

6 Conclusion

European economic governance is a new system of government that is supposed to prevent the economic skids and is based on a permanent fond for saving the euro zone, financial sanctions in the case of breaking the rules and an alerting system regarding the salaries’ evolution of public sector.

The conclusions of European Council that took place on 28-29 October, 2010, emphasised the need of “*a fundamental shift in European Economic governance*”. The European Council endorsed the report of the Task Force on Economic Governance and the implementation of it is expected to increase fiscal discipline, to broaden economic surveillance and to deepen coordination. One of the most important objectives is to enhance confidence in euro area because this is the key for generating sustainable growth, employment and competitiveness.

In order to ensure balanced a sustainable growth, Heads of State or Government agreed on the need for Member States to establish a permanent crisis mechanism to safeguard the financial stability of the euro and to design the condition under the broad range of stakeholders are involved: the private sector, the IMF, etcetera. Also, in order to reinforce the fiscal discipline, they underline that the EU budget and the forthcoming Multi-Annual Financial Framework has to reflect the efforts made by Member States to bring deficit and debt onto a more sustainable path.

Regarding Romania, the summit of European Council from September 16, 2010 releaved that due to the possitive measures taken by Romanian authorities, such as the decreasement in public sector’ wages and the increasment of VAT, European Commission stopped for the moment the excessive deficit procedures and the European Commissioner for Economic and Monetary Affairs, Mr. Olli Rehn, declared that the target of Romania deficit below 3% of GDP, by 2012, is achievable.

Weak administrative capacity to plan and execute public investment projects is one of the biggest problems which Romanian business environment is confronted with.

Therefore European governance may be the solution for poor national governance. Romanian fiscal strategy will be monitored by annual and biannual progress reports.

Through these reporting and monitoring procedures of European Commission, transparency should increase and the macroeconomic and budgetary evolution of Romania will be predictable. Macroeconomic stability represents the key for a prosperous business environment sought by investors.

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