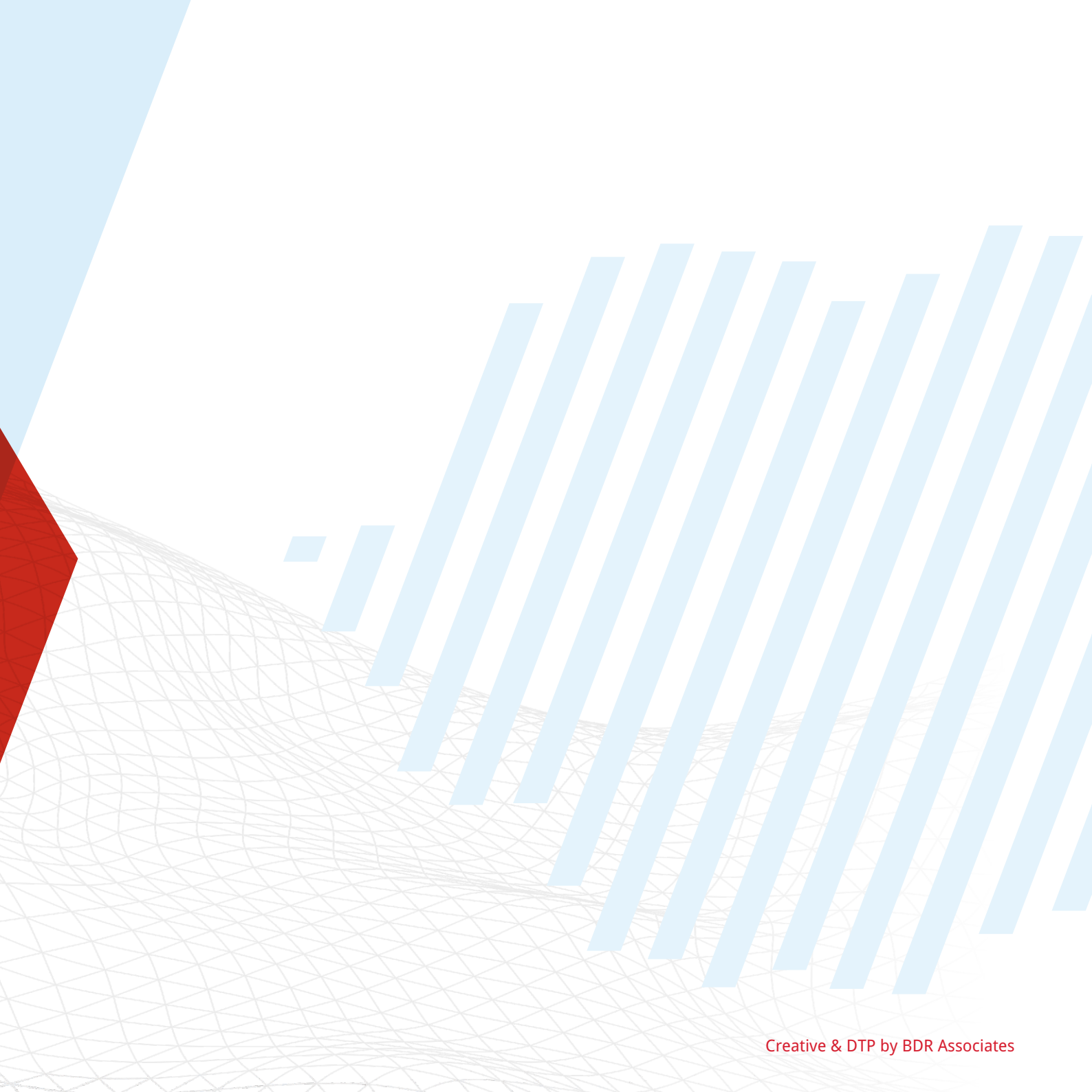




FUTURE IS NOW

ESSENTIALS FOR ROMANIA'S DEVELOPMENT





CONCEPT

Starting from its commitment to help the design of a modern Country Project, the American Chamber of Commerce in Romania launches a special set of periodical reports focused on strategic policies, structural reforms and macroeconomics. This series follows the AmCham policy analysis traditionally published by AmCham, **Romania Country Competitiveness Report** and **Priorities for Romania** and are calibrated for the practical understanding, use and action of all of us living in Romania, citizens in large cities or remote villages, foreign or local investors, business owners and corporates, academics, politicians and public officials. We all speak the same language and share the same vision for a better Romania.

A HIGHER PURPOSE - PROJECT ROMANIA

We face a world of challenges we must meet with strength and skill, and opportunities we must build on. Deep-rooted stalemates, such as corruption, the lack of an integrated systemic vision, the infrastructure gap and the shrinking administrative capacity can be remedied only through the crafting of a Multigenerational Country Project. This is about setting together a strategic course and competitive priorities that should uphold the national values and long term interests and enhance the country's role within its Euro-Atlantic partnerships.

AmCham serves the higher purpose of Project Romania, within the integrated steps started three years ago aiming at aligning energies towards positive developments, by sending strong impulses for positive disruption and building consensus. We do not talk numbers, we talk about the future by design for all Romanians. Under the pressure of the regional and global developments, Romania's efforts to gain competitive edge must be strategically scaled up, considering economics and geopolitics of this exercise in an integrated vision. Macroeconomic growth has a number of benefits, but things are more dramatic in real life. Sustainability of wealth yielding becomes crucial, and it makes sense only if translated into better living standards, a competitive economy, quality public services and modern infrastructure. Disparities are shocking in Romania – we must all be concerned and act as diligent keepers.

We have the duty to contribute to the healing and transformation process for us and this country.

OUR FOCUS - FIVE STRATEGIC PRIORITIES

A strong vision for a better Romania necessarily includes five strategic priorities, which we consider to be the essentials for solid growth and development.

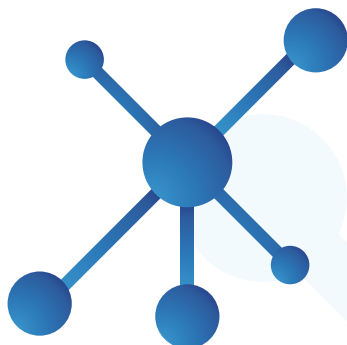
According to AmCham Romania, the prerequisites for the national strategy and public policies for the 2017-2030 period are related to the increasingly difficult to anticipate global changes, to Romania's opportunities to become a regional leader in the international structures to which it belongs, the need to transfer the economic performance of the past years to the welfare of the population and to accompany economic growth with measures to increase competitiveness. The implementation of such measures should transform Romania's economy into an economy based on generating high added value, which at the same time should translate into improving the living standards of Romania's population, image and attractiveness for investors by assuming a visionary and performing country model. We believe that Romania can progress realistically by adopting pragmatic solutions for the following vital strategic priorities:

1. HUMAN CAPITAL

Human capital is one of the key drivers of economic growth, together with capital and technological improvements. Romania is currently facing numerous human capital challenges, amongst them the migration of skilled labor, low natality, low levels of education of active labor and productivity per hour. The one challenge that stands out is demographics. The population of Romania has been on a downward trend since the fall of communism in the 90s. Demographics has major implications not only on the long-term economic growth of the country, but also on the wellbeing of current and future generations. It erodes competitiveness and places a burden on the social welfare system of the country. Despite the less optimistic perspective, public policymakers can apply a set of measures aimed at reversing the negative trend of demographics and improving human capital metrics. Such measures include:

- Establishing a coherent and long-term policy framework to support Romania's standard of living and **population growth**, including developing children-incentive package schemes;
- Maintain the flat tax rate of 16% as one of the ways to incentive and keep human capital in Romania;
- **Increasing spending on education** as GDP % and establishing stronger partnerships between universities, research centers and companies;
- **Enhancing young people's entry into the labor market** through integrated actions including guidance, counselling, internships and apprenticeships.





2. MODERN INFRASTRUCTURE

Infrastructure investments can only boost prosperity and facilitate profitable business. We highlight four critical infrastructure areas which need strategic development measures:

a) Agriculture

- **Irrigation infrastructure rehabilitation**, including through the use of renewable energy sources, smart grid solutions, digital platforms and applications;
- Adopt legislative and fiscal measures to encourage **farmers' association and land consolidation** along with tax measures to discourage raw material exports and encourage **value-added production in Romania**;
- Promoting bio-agriculture and preserving the national plant genetic resources.

b) Digitalisation

Implementation of the National Strategy on Digital Agenda for Romania - AmCham Romania considers that the strategic directions for information and communication technology (ICT) area are the following:

- Implementation of a **national IT infrastructure** to ensure the interoperability of systems and services within the central and local public administration;
- Adopt and implement a **national strategy** to digitize the public sector by expanding digital governance and introducing cloud services;
- Implementation of a **data classification system**, based on the open data rule;
- Provide modern **cyber security** policies and systems;
- Increasing the level of **digital education** in Romania as a platform for sustaining the country's medium and long-term growth.



2. MODERN INFRASTRUCTURE

c) Energy

The next steps for developing an independent, strategic energy position must include:

- Acceleration of the effective implementation of a **national energy strategy** that prioritises the modernization of the sector, to pursue the needs and objectives of the national economy on medium and long term and to materialize the advantages of the strategic position in the interconnection of the regional and European markets. The national energy strategy will have to ensure, through legislative measures, a high degree of energy independence directly correlated with the available energy resources at national level, as well as with Romania's energy security;
- Promotion of **complex projects at national level**, which stimulate both the socio-economic development and the increase of the energy consumption.

d) Transports

Romania already has a **Master Plan on Transport** and should focus on **implementation** and identification of funding sources, even if such Master Plan can be improved. The priority must be the qualitative and efficient execution, but it depends on the acceleration of the absorption of European funds, the budget allocation of funds, the development of public-private partnerships and the enhancement of technical skills and large project management.

The implementation and financing of the Master Plan should take into account the priorities and the positive effects it might have on areas such as boosting of tourism, unlocking the potential of some regions, increasing the attractiveness for investments or increasing the competitiveness of exporters. We emphasize that our recommendations relate to all ways of transport, including rail, river / sea and air. It is very important for Romania to benefit from the European projects for the development of the TEN-T network and to develop the development of the multimodal infrastructure at the level of the designated regions for development.



3. ENCOURAGING INVESTMENTS

Investments accounted for 24.8% of Romania's GDP in 2015. However, the investments' share of GDP decreased to 22.7% in 2016, which is still above the EU average of 19.7% reported for the same year. Some of the key factors that affect investments include labor costs, labor skills, tax rates, infrastructure, political stability, exchange rates, or growth potential. In particular, Romania's attractiveness consists of low wage rates, geographical location and skilled labor in certain industries, specifically IT. Looking ahead and taking into account the current development challenges, some of the measures that public policymakers can implement to balance this transition include:

- Stimulate investment in **key export industries** and create incentive packages for local and foreign investors based on new technology implemented, number of jobs created and high value-added export capacity created;
- Using **EU funding** to develop physical infrastructure to strengthen Romania's competitiveness;
- Incentivize **research and development**, as well as advanced technologies;
- Improving both political **stability and predictability** in the regulatory framework;
- Increasing the quality and transparency of **public investment**;
- Accelerating the pace of **structural reforms**, strengthening public institutions and improving the performance of state-owned enterprises.



4. ENVIRONMENTAL FRIENDLY DEVELOPMENT

From the point of view of the natural environment and resources, Romania definitely enjoys optimal conditions to try to secure a competitive advantage if it is used and managed economically with maximum efficiency and sustainability as a viable source for creating the national wealth:

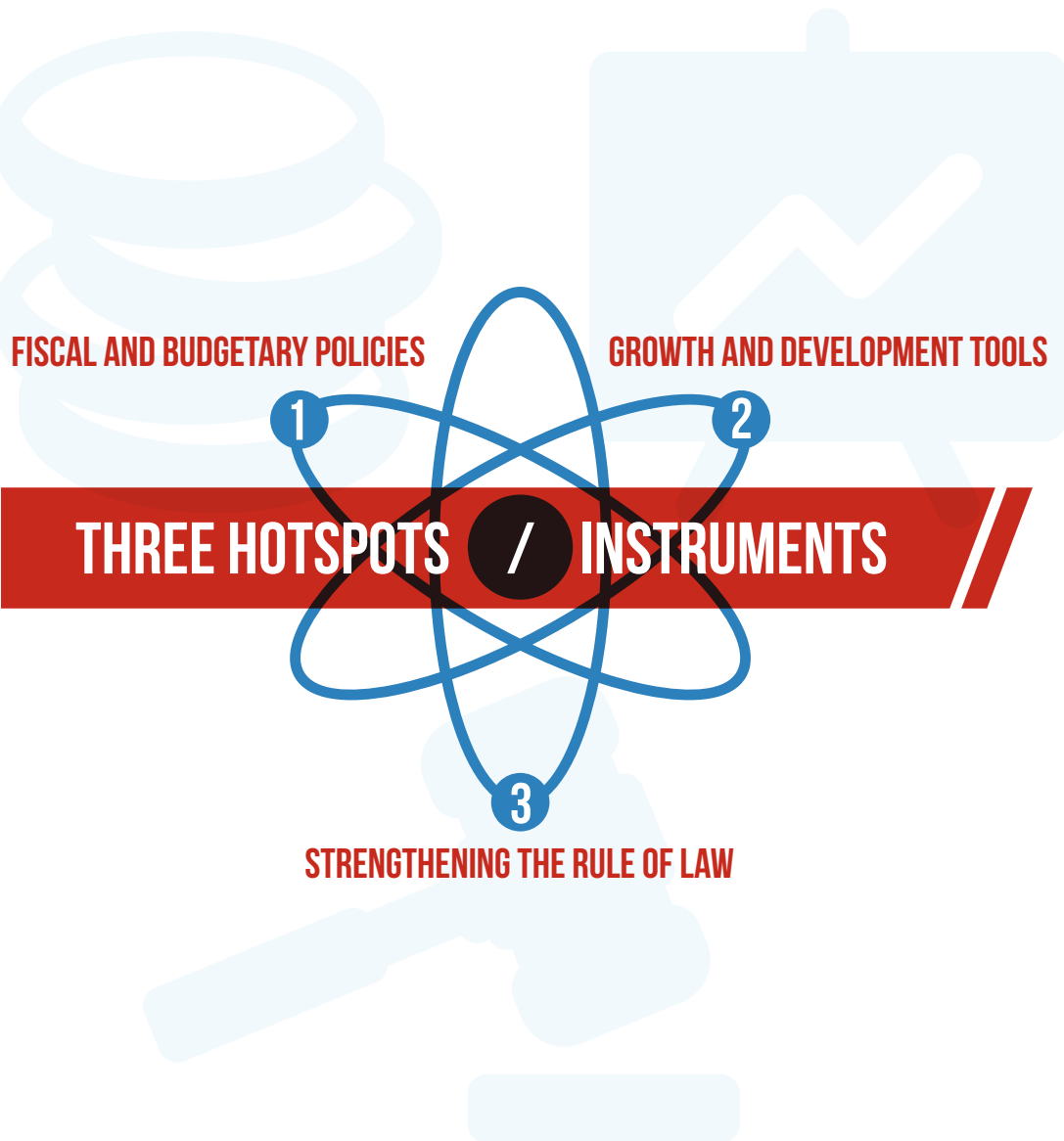
- a) **Responsible management of natural resources**, through efficient exploitation, judicious preservation and long-term access security in the interest of future generations.
- b) **A developed and sustainable tourism sector** can make a substantial contribution to the effective use of the natural environment, increased employment and increased national income. Tourism can be an important driver for growth and prosperity and can be a key element in reducing regional disparities.
- c) Operate the **National Climate Change Strategy** through integrated measures to ensure sound and sustainable development in the medium and long term, under the key obligations of preventing and combating climate change:
 - Establishment of an intervention program to stop and sanction drastically illegal deforestation and refunds;
 - Adopt a national forestry strategy that includes a 10-year moratorium on forest exploitation and the establishment of a medium-long-term plan for reforestation and restocking of fauna;
 - Special protection of virgin forests, protected areas and national parks, including the Danube Delta and watercourses.
- d) **Conservation of forests and biodiversity** through.
- e) **Waste management**: the lack of modern waste management infrastructure, especially to ensure a separate collection of waste, will lead to Romania failing to meet its commitments within the EU. A number of modern measures are required to address systemic problems and long-term sustainability of adequate waste management.



5. RULE OF LAW

Corruption continues to remain a serious and direct threat against national security and a major obstacle against Romania's development, by capturing and wasting critical resources to the detriment of national strategic projects, by inequitably distorting the economic environment and deteriorating the population's standard of living, thus dramatically affecting the interests of the country, of honest taxpayers and of strategic partners.

Structural institutional reforms are required for the consistent and equidistant application of the law, as well as a redefinition of certain core systemic milestones for the **consolidation of the rule of law and of the balance of state powers** for removing institutional distortions, deviation of institutional tools and mechanisms from their legal and constitutional purpose and mandate, of interferences in politics, economics, judiciary and the press. Equally important is the need to remove the arbitrary operating and investigation filters, to resolve the high-level cases of corruption and tax evasion, avoiding abuses and inadequate influences of any kind, with special care paid to a lawful, substantive investigation, actual and prompt recovery of damages and substantial prevention and remedy actions, by also creating voluntary conformity mechanisms.



1 FISCAL AND BUDGETARY POLICIES

In our view, fiscal and budgetary policies are part of an encompassing policy ecosystem aimed at growth and development of the Romanian society, while contributing their share to sustainable macroeconomic balance and a fair distribution of wealth at national level. Hence, in various phases of the economic cycle these policies may act as a natural counter balance to pro-cyclical stances and instinctual appropriation behavior that may disregard certain groups of the population and create polarization. However, looking back at the past 27 years, fiscal policy has episodically met the first objective (i.e. being counter cyclical) and contributed mildly to re-distributional purposes in the society. Moreover, in the context of the latest episode of economic growth, fiscal policies continue unabated their pro-cyclical stance, failing to contribute to a much-needed consolidation of the public debt.

Proposed measures:

- **Consider a sustainable path of the public debt in line with society development goals;**
- **Revisit the quality of public expenditure and focus the expenditure on investment rather than consumption;**
- **Boost the absorption of European funds;**
- **Expand the fiscal basis, improve tax administration and consolidate the fight against tax evasion to enhance budgetary revenues, in line with the structural evolution of the economy. On the revenue side, improving the quality of expenditure and effectiveness of public investment should contribute to a more sustainable fiscal stance.**

2

GROWTH AND DEVELOPMENT TOOLS

The long-term goal of any country project should be to increase the quality of lives for people, in a sustainable and inclusive manner. Romania has experienced episodes of continuous economic growth in the past two decades, which appear to have been significantly correlated with cyclical evolutions. The current growth performance puts the country in a leading position among EU-28. Yet, more attention could be paid to the sustainability of wealth creation, its drivers and structure, the policy choices, subsequent allocation of resources and their contribution to growth potential. Furthermore, we intend to understand the influence of these supplementary resources to the quality of life and well-being of Romanian citizens.

In this context, the distribution of income and capital from a territorial perspective, the development of public services and infrastructure, access to basic services for our citizens are going to be **essential elements of our analytical exercise**. The scope of this exercise is to understand the contribution of growth to the daily lives of our citizens and society and to ensure inclusiveness. While fiscal policy may be considered a redistributive mechanism, our experience with this dimension of public policy has proved rather limited. Hence, expanding the fiscal basis in line with the structure and complexity of the real economy, while insuring a proper review of expenditure may contribute to more inclusive growth and balanced territorial development.

3

STRENGTHENING THE RULE OF LAW

A democratic Romania can only develop through the ongoing calibration and strengthening of the rule of law, based on an integrated, balanced, and performant institutional system, through strategic measures of substance with an enduring impact:

- **structural resetting and modernization of institutional mechanisms through efficient democratic instruments to guarantee the separation of state powers by ensuring independence, ethics and integrity;**
- **an independent and efficient justice system, the development of check and balance mechanisms, and the furtherance of fight against corruption; modernization of the organization and operating laws governing law enforcement institutions;**
- **redefinition of balance between control structures, good governance and strategic creativity, which is currently tilted in favor of control institutions;**
- **minimization of bureaucracy, simplification of legislation, digitalization of public services;**
- **adoption of legislative packages aimed at fostering the integrated development of strategic sectors, including the necessary changes to the Criminal Code;**
- **transparency and predictability in all the stages and at all levels of the legislative process, supplemented by a reduction in the number of emergency ordinances;**
- **impact assessment of the integrated efficiency and competitiveness of any legislative measures.**

CONCLUSIONS AND NEXT STEPS

METHODOLOGY

This report is prepared by the AmCham Romania's Strategy & Macroeconomics Taskforce. This economic policy analysis group focuses on strategic, macroeconomic and competitiveness and was initiated by the AmCham Romania Board of Directors to support the analytical and policy orientation exercises that take place within the thematic committees of the Chamber, as well as the decision-making process of the Board of Directors. This document is part of an effort to shed light on topics of reference for the Romanian economy. Topics considered in the focus reports should be relevant for the evolution of the economy, structural reforms and business environment according to our view. The report aims to highlight the relevant mechanisms that support the main topics and explain implications for the real economy either at macro level, sectoral or in different markets. The methodology of our report is based on using a set of indicators designed to monitor the evolution of main economic variables and relevant literature review (analyses, reports, research papers, public databases and own analyses).



Almost 25 years from the beginning of its activity in Romania, the American Chamber of Commerce in Romania (AmCham Romania) now represents over 400 members - U.S., international and Romanian companies, with total investments worth over USD 20 billion and generating approximately 250,000 jobs in Romania.

AmCham is firmly committed to facilitating an open dialogue between the business community and the central authorities, promoting transparent solutions and priorities for making Romania a better home for businesses and increasing the

country's economic competitiveness in the region and at European level. AmCham Romania is an accredited member of the U.S. Chamber of Commerce and part of the European network – AmChams in Europe.

We trust that AmCham Romania is best positioned to promote its members best practices and business priorities in the relationship with the Romanian authorities, through its working groups structure that gathers the contribution of leading experts within member companies. This allows AmCham to have a comprehensive advocacy agenda that covers areas such as taxation, energy, environment, health, competition and state-aid, structural funds and public procurement, education, ITC, infrastructure, capital markets, corporate governance, real estate and tourism.

Beyond advocacy –related activities, events, learning sessions and special projects organized by AmCham Romania for members offer valuable occasions for networking, best practices exchanges and business growth opportunities.

AmCham Romania enjoys a solid institutional collaboration with the U.S. Embassy in Romania, as we coordinate efforts towards supporting U.S. companies in Romania.

Visit us at www.amcham.ro!





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