The Comparative Study of the Attractiveness of Eastern European Business Environments

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Abstract

The aim of the article was to identify ways to increase the attractiveness of the business environment in Romania. In order to achieve the goal, it was resorted to comparing the attractiveness of the business environment in other countries with the one in Romania.

The comparative study was carried out by analyzing the factors that influence the business environment and determine its degree of attractiveness.

The legislative, fiscal and institutional factors, which represent the levers through which the state acts on the business environment, influencing its attractiveness, were analyzed in chapter 4.1. of the paper. The economic-social factors, which represent the effects of the implementation of government strategies, are the object of study of the chapter 4.2.

Key words: attractiveness, business environment, investments, comparative management
J.E.L. classification: O 11, O 24, O 38, O 57, P51

1. Introduction

The situation of the Romanian economy was affected in 2020, by the economic recession caused by the COVID-19 pandemic, followed by the onset of the energy crisis and the invasion of the Russian Federation in Ukraine. The negative effects of these circumstances are already felt, having a significant impact on the business environment in Romania.

The recovery of the economy requires capital investments in all branches of the economy. Attracting local and foreign investments requires transforming the Romanian business environment into a more attractive space for investors.

Identifying ways to increase the attractiveness of the business environment in Romania is the purpose of this article. In order to achieve the goal, it was resorted to comparing the attractiveness of the business environment in other countries with the one in Romania.

The comparative study was carried out by analyzing the factors that influence the business environment and determine its degree of attractiveness.

By analyzing the managerial strategies, the effects produced by their implementation and comparing them with the achievements of other economies, the vulnerable points of the managerial strategies used can be identified. The correction of these deficiencies creates the conditions for increasing the attractiveness of the business environment.

2. Literature review

In the scientific literature, the business environment has been analyzed by many authors. Among those who contributed to the conceptual foundation of the business environment are Peter Duncker, considered the creator of modern management, Henry Mintzberg, Robert L. Mathis, Michael H. Mescon (Sirbu, 2011).

Romanian specialized literature also records numerous approaches to the concept of the business environment, which have developed definitions, analyzes and research methodologies, both at the theoretical and applied level.
The research methodologies of the business environment in the scientific works have as their starting point the analysis of the factors that influence and define the socio-economic environment. (Nedelea, 2008). The analysis of the set of managerial, technical and technological, social, cultural, demographic, political and governmental factors constitutes the informational foundation of the diagnostic analysis of the business environment (Badea, 2005).

A feature of the business environment is its dynamic nature (Radu, 2005), in order to maintain a sustainable environment, it is necessary for the governmental and local authorities, but also the economic organizations (Stoica, 2021) to adapt permanently to the challenges and threats in the economic environment.

The attractiveness of the business environment depends on the factors listed, but also on the economic organizations that make up the economic environment, on the way business is conducted, on the correctness and promptness of economic agents (Sitnikov, 2023)

The evolution of the business environment in moments of economic contraction (Măiţă, 2021), such as the one the economy is currently going through, is characterized by increased caution, low liquidity, smaller flows of foreign capital (Nicoleșcu, 2003). Under these conditions, relaunching the economy requires increasing the attractiveness of the business environment (Nicoleșcu, 2006).

In the scientific studies dedicated to international comparative management (Burduș, 2006) research methodologies are presented that allow the comparative analysis of business environments from different countries, geographical areas, etc. Research carried out in this way can approach analyzes on different sectors of business environments, on certain fields of activity (Nastacă, 2021). The results of these researches represent the way of highlighting the differences between the attractiveness of business environments in the analyzed areas.

3. Research methodology

As a working method, international comparative management research methodologies were used (Burduș, 2006). So, by analyzing the achievements of strategic management aimed at increasing the attractiveness of business environments practiced by other states and comparing with the management and strategies adopted in Romania, the differences between the approaches are identified. In this way, the pluses and minuses of managerial practice in Romania can be found. The correction of deficiencies through the transfer of managerial practices creates the conditions for increasing the attractiveness of the business environment.

The analysis of the achievements of strategic management (Emelian, 2023) aimed at increasing the attractiveness of business environments, was carried out by studying the factors that influence the business environment.

The factors that influence the business environment through the analysis of which the paper sought to characterize the attractiveness of the analyzed economies are classified as follows:

- Legislative, fiscal and institutional factors;
- Economic and social factors.

These factors are embodied in:

- The legislative, institutional and fiscal framework includes:
  - Legislation regarding the support of investments and economic agents;
  - Taxation - the level of taxation, the clarity and stability of fiscal regulations;
  - The degree of openness of the economy - concretized in the legislation on foreign investments and commercial openness.
  - The efficiency of institutions, the correctness and promptness of the application of legislation;

- Economic and social factors:
  - The macroeconomic environment of the country;
  - The degree of development of the economy - measured by the level and evolution of GDP/inhabitant, the level of industrialization and tertiaryization, technological endowment;
  - Labor market;
  - Infrastructure: transport, communications;
  - Market size.
To compare the business environment in the analyzed countries, the main macroeconomic indicators that characterize the state of an economy were used. Information on these indicators was obtained from Eurostat's online publications.

Legislative, institutional and fiscal factors, which represent the levers through which the state acts on the business environment influencing its attractiveness, were analyzed in chapter 4.1. The economic-social factors that represent the effects of implementing strategies, being the results of strategic management, are the subject of study in chapter 4.2.

The comparative study of the attractiveness of business environments was carried out between Romania, Poland, Hungary, the Czech Republic and Bulgaria. Reporting to these states is appropriate, because they belong to the same geographical space, they have a similar history in the last 70 years, both until 1989, when they had the same political and economic regime, and after 1990 in the process of economic liberalization and accession to European union. They are also part of the 7 EU member states that have not adopted the euro currency and do not belong to the euro zone.

4. Findings

4.1. Parallel between the government strategies regarding the business environment adopted by the Central and Eastern European countries

The integration into the European Union, of the states that will be the subject of this study, requires the adoption of similar strategic development programs. Therefore, the strategies of the analyzed countries, strategies through which the state acts on the business environment, are similar. The differences stem from the promptness and extent to which the strategic programs were legislated and the manner of implementation. By presenting the legislative, fiscal and institutional framework intended to support the business environment of the compared countries, the similarities and differences between managerial practices will be highlighted. In this way, the minuses and vulnerabilities in the Romanian business environment and the ways to correct them will be highlighted.

**Romania** has legislation that provides for fiscal facilities:
- supporting investments that promote regional development by creating jobs (HG 332/2014);
- simulating investments with significant influence on the economy (HG 807/2014).

Several investment attraction agencies operate in Romania: National Investment Company "C.N.I." - S.A., under the authority of the Ministry of Development, Public Works and Administration; Agencies for SME (Small and Medium Enterprises), Investment Attraction and Export Promotion; The National Agency for Land Improvements, which do not have a government representative position, which represented an impediment in negotiations with foreign investors. That is why these agencies have low efficiency in attracting investment.

In October 2022, the Romanian Agency for Investments and Foreign Trade was established. This new structure was subordinated to the Government and coordinated by the Prime Minister. The agency has the following main attributions:
- coordinates the development of policies and strategies to promote foreign investments in Romania and programs to attract foreign capital into the economy;
- ensures the control of foreign investment promotion activities in Romania;
- coordinates operations to stimulate domestic and foreign direct investments in industry, services, scientific research, technological development;
- promotes and supports foreign trade activities;
- promotes and supports the investment interests of the Romanian business environment;
- ensures the follow-up of Romanian investments abroad.

**Bulgaria** The Bulgarian investment agency is InvestBulgaria (IBA). The agency is a government organization, established to attract investments in Bulgaria, to support the establishment and development of projects that create new jobs, exports and transfer of know-how to the Bulgarian economy. It supports investors to explore the business environment and develop investment opportunities in Bulgaria.
It also provides detailed information about Bulgaria, such as: business location, analysis, macroeconomic information about the business climate in the country, real estate, incentive measures, availability of skilled labor and the level of education by region in the country, administrative procedures etc. .

The mission of the IBA is to promote all incentives for increasing the flow of investment in Bulgaria, acting as a mediator between investors, state and local institutions in the implementation of investment projects.

Poland, unlike Romania, has a medium-term vision for attracting investments, developed through the program to support investments of significant importance for the Polish economy for the period 2011-2030, which is the main basis for granting subsidies. The Ministry of Development and Technology of Poland has established 7 priority sectors for state aid: the automotive sector, the electrical and electronic appliances sector, aviation, biotechnology, food processing, modern services and research and development.

In this national strategy, the Polish government has also foreseen the possibility of being able to ensure that the flow of economic exports is greater than that of imports, so avoiding gaps in the trade balance.

In addition to this strategy, the Polish government also has other strategic directions for granting loans to companies in other sectors, which make significant investments with a productive purpose.

The criteria for granting state aid are clear: support is provided for new jobs and investments. In the first case, the level of the subsidy depends on the number of new jobs created, the share of people with higher education employed, the location of the investment, the attractiveness of the products made for international markets or the complexity of the processes offered by the company (in the case of services). In the second case, the subsidy is granted depending on the number of newly created jobs and the location of the investment. In addition, incentives are provided for investment in special economic zones in the form of exemption from corporate tax. Poland currently has 14 special economic zones and 76 industrial parks.

The Polish Investment and Trade Agency (PAIiIZ) facilitates the contact of investors with the authorities, deals with the identification of suppliers and contractors. The agency provides information on the legal and economic environment and takes care of the document flow for obtaining financial support from the state.

In Hungary, the Hungarian Investment Promotion Agency (HIPA) was established in 2011. It is a national investment promotion organization governed by the Ministry of Foreign Affairs and Trade. HIPA's most important task is to provide professional assistance to foreign and Hungarian companies wishing to invest in Hungary.

4.2. Comparison of the results of strategic management on the business environment in Central and Eastern Europe

The economic factors that influence the attractiveness of the business environment represent the effects, the results of the implementation of government strategies applied by strategic management (Nicolescu, 1999) at the national and local level. By measuring these effects and comparing them with the achievements of other economies, it is possible to identify the vulnerable points of the applied strategies or of the management methodologies used. By correcting these deficiencies, the conditions for increasing the degree of attractiveness of the business environment are created.

For an adequate assessment of the potential for revitalizing the attractiveness of the Romanian business environment, a brief presentation of an overview of the Romanian economy in the pre-pandemic period is useful.

The economic situation of Romania according to the report "State of the economic environment 2022", Chamber of Commerce and Industry of Romania, was defined until 2019 by financial stability, of prices, of the currency exchange rate in relation to the European currency and a low level of inflation. In 2019, the Romanian economy reached its eighth consecutive year of growth.

Romania generally has a pronounced trade deficit, which also existed before the pandemic, but has increased significantly in the post-pandemic period. According to the Statistical Yearbook of Romania 2022, in 2019, the current account deficit of the balance of payments was 17.3 billion EUR, in 2021 it was 17.5 billion EUR, reaching 26.6 billion EUR in 2022.
To compare the business environment in the analyzed countries, the main macroeconomic indicators that characterize the state of an economy were used. Information on these indicators was obtained from Eurostat's online publications.

Gross domestic product (GDP). The main indicator that shows the economic position of a country is the GDP. With a GDP volume in 2022 of 286 billion EUR, the Romanian economy ranks 12th out of the 27 states, according to data published by Eurostat - Statistics explained. At the level of Central and Eastern Europe, after Poland, Romania is, as of 2020, the second largest economy in terms of GDP (table 1). In 2018, Romania surpassed Portugal in terms of nominal GDP, and in 2019 it also surpassed the Czech Republic for the same indicator. Among the countries compared, Romania had the highest GDP growth rate in 2018, 109%.

Table no. 1 The nominal value of the GDP of the analyzed countries from Central and Eastern Europe – EUR billion-

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<td>2.</td>
<td>Romania</td>
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<td>286</td>
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<td>3.</td>
<td>Czech Republic</td>
<td>194</td>
<td>211</td>
<td>226</td>
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<td>4.</td>
<td>Hungary</td>
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<td>5.</td>
<td>Bulgaria</td>
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In 2020, the year of the outbreak of the coronavirus pandemic, all analyzed economies experienced decreases in nominal GDP values, the largest decrease being recorded by Hungary which declared a GDP value 6.2% lower than the previous year.

The reduction of restrictions imposed on economic activities by governments in 2021 led to an increase in the nominal value of GDP in all analyzed countries, even surpassing the level recorded in the pre-pandemic period, an increase that continued in 2022. The highest increase was recorded by Bulgaria with 119.7%, followed by Romania with 118.7%, the lowest increase Hungary 110.4%.

GDP per capita. The analysis of GDP per capita excludes the influence of population size, making comparisons between countries easier, while at the same time it is an economic indicator of the standard of living. The ranking among the countries in the analyzed group, according to data published by Eurostat - Statistics explained, based on GDP/capita, shows a different picture of the Romanian economy, which is in the penultimate position, ahead of Bulgaria. The Czech Republic holds the first position among the countries compared. In the pandemic year 2020, all compared countries experienced declines in GDP/capita, the only economy in the region reporting a small increase in GDP/capita that year is Bulgaria.

The situation of Romania in the penultimate position among the states of the European Union, in this indicator that characterizes the economic situation represents a weak point for Romania in highlighting the differences between the potential for increasing the attractiveness of the business environment.

Work productivity. The analyzed economies have a labor productivity index per employed person below the European Union average, but have an upward evolution throughout the 2017-2022 reference period, according to data published by Eurostat - Statistics explained. Even in 2020, when the pandemic affected economic development the most, the trend of this indicator remained upward. The exception is the Czech Republic, which, although it has the first position in the analyzed group, reported a decrease in this indicator in 2021 and 2022.

Romania ranks third, overtaking Hungary in 2019, it kept this position until 2022, even in the pandemic year 2020, when the difference between the two states widened in favor of Romania. Also, compared to Poland, ranked second, Romania decreases its gap every year.

The employed population consists of people aged over 15, who worked for pay during the reference period, according to the methodology used by the European Union.

The employment rate has a positive, approximately constant evolution until 2019, with a decrease in 2020, in all the countries analyzed, except for Poland, which also recorded an increase in 2020. Among the countries with a negative evolution in 2020, Romania recorded the most small loss in terms of the occupancy rate of 0.3%, according to data published by Eurostat - Statistics explained.
In 2022, Romania is the only country in the analyzed group that ranks below the average level of the European Union.

**Unemployment rate.** The analyzed countries maintained their unemployment rate below the average level in the European Union, according to data published by Eurostat - Statistics explained. The best positioned is the Czech Republic, the country with the lowest unemployment in the European Union starting from 2018. Poland is the only country where unemployment decreased in 2020. Romania is in the penultimate position in the ranking of the five countries, followed by Bulgaria.

The sharp increase in the unemployment rate in 2020 is further diminishing from 2021. The only country where the unemployment rate is decreasing in 2021 is Hungary. The other states in the analyzed group record a decrease in the growth rate of the unemployment rate below the average growth rate in the European Union.

**Labor costs.** Average labor costs per economy place all countries in the analyzed group below the level of average labor costs in the European Union, according to data published by Eurostat - Statistics explained. Among the five countries, the Czech Republic has the highest labor costs, followed by Poland and Hungary. Romania is in the penultimate position in the ranking of the compared countries (Marinas, 2023), not far behind, Bulgaria is in the last place. In the compared countries and at the level of the European Union, labor costs have increased continuously throughout the analyzed period.

**Population structure by age groups.** Regarding the share of age groups in the total population, Eurostat statistics record the aging of the population, especially in Western countries (Population structure and aging. Eurostat).

Regarding the analyzed countries, it can be seen that Bulgaria and the Czech Republic have the lowest share of the working population group, 15-64 years old, which forms the labor force. lower and average in the European Union. Hungary, Poland, and Romania have a share of the working-age population above the European Union average, according to data published by Eurostat - Statistics explained. Also, the percentage of the population aged over 65 in Romania and Poland is lower than the European average and the lowest among the analyzed countries. Romania and Poland also have a young population higher in percentage than the European one. Hungary, however, has a young population below the European average and compared to the analyzed countries.

**The inflation rate** has a similar evolution in the period 2017-2022, for the countries in the analyzed group, being similar to the average evolution in the European Union (Eurostat - Statistics explained), as can be seen in graph no. 1. The trend of these developments was almost linear until 2021, the year in which, as a consequence of the pandemic crisis and the start of the energy crisis, the inflation rate increased for all the states in the group, except for the Czech Republic where it stagnated.

\[ \text{Graph no. 1: Evolution of the inflation rate in Central and Eastern European countries} \]


The war in Ukraine and the energy crisis were factors that influenced the significant increase in the inflation rate in 2022 in all the analyzed states. In 2022, the inflation rate values increased three times compared to the values of 2021. According to Eurostat data, in 2022, Romania has the lowest inflation rate among the countries of the analyzed group.
4.3. Ranking of the degree of attractiveness of business environments in Central and Eastern European states

The Doing Business ranking by the World Bank measures and ranks the attractiveness of the business environment in 190 countries. Economies are ranked according to the ease of setting up and operating a business in that country. The classification of business environments is achieved by aggregating 10 separate criteria or categories that are created on 10 different topics. Each category contains several indicators that characterize one aspect of the business environment. By aggregating these categories, the aggregate called "score" in the Doing Business methodology is obtained. Based on these scores obtained by each national economy, the ranking of the attractiveness of business environments is made.

Among the Central and Eastern European countries analyzed in this study, in the Doing Business ranking for 2020, Poland ranks first, position 40 (out of 190 countries), followed by the Czech Republic at position 41. Among the five countries, Romania ranks penultimate, position 55 globally, just ahead of Bulgaria positioned at 61st. A regional average, calculated at the level of the European Union, indicates 39th place. It follows that the economies compared in this study are all positioned below the regional average of the EU.

The evolution of the attractiveness of the business environment, according to the Doing Business ranking, shows that Poland had the best performance among the analyzed countries, advancing by 14 positions compared to 2018. Bulgaria had a very good evolution, which climbed 13 positions in the ranking. Romania advanced by 12 positions, tied with the Czech Republic. Hungary in 2018-2020, advancing by only 6 positions.

![Graph no. 2 Positioning of Eastern European countries in the Doing Business-World Bank ranking](Image)

It should be noted that the positioning of these countries, in the Doing Business ranking, did not change between 2019 and 2020. In this interval, only the scores obtained by each country changed by very small percentages. The biggest positive growth was Romania 1.1%, Bulgaria and Hungary 0.3%, the Czech Republic obtained the same score in 2020 as in 2019, and Poland recorded a decrease in the score by 0.65%. Significant changes in ranking positions and scores occurred between 2018 and 2019. The inertia of the attractiveness degree in 2020 is due to the severe measures adopted by governments to mitigate the consequences of the health crisis. The restrictions with the greatest impact on economies and the attractiveness of business environments are the cessation of non-essential economic activities, the limitation of free movement and the closing of the borders of certain states.

5. Conclusions

Analyzing the main macroeconomic indicators of the compared countries, it was found that Romania has economic performances comparable to those of these states. The accession of the Czech Republic, Poland and Hungary to the European Union in 2004, and of Romania and Bulgaria in 2007, is still felt in the economic development of these two states. Romania still has deficiencies in some
of the analyzed indicators, but also favorable developments. For a conclusion of the analyzes carried out, the obtained results will be structured and ranked, so as to highlight the deficiencies and positive aspects of the economy.

The negative aspects, the weak points of the business environment in Romania:
- pronounced trade balance deficit;
- a low level of GDP/capita;
- the lowest employment rate among the analyzed countries;
- the highest unemployment rate in the analyzed countries;
- the low efficiency of the Romanian investment attraction agencies that did not have the status of government representatives;
- lack of a medium- and long-term strategic vision for attracting investments;
- the absence of a sectorial selective policy regarding the allocation of subsidies, tax exemptions, by prioritizing certain economic sectors;
- the lack of viable solutions to reduce the effects of the energy crisis and reduce cost pressure.

These are the aspects that require adjustments to improve the deficiencies that determine a low level of attractiveness of the business environment.

The positive aspects, strengths of the business environment:

Precedence criteria:
- the perpandemic evolution of Romania was defined by financial stability, of prices, of the currency exchange rate in relation to the European currency, a low level of inflation and interest rates, and foreign direct investments were increasing;

Economic conditions:
- Romania's economy recorded in 2022 the second consecutive year of economic growth in post-pandemic conditions, war in Ukraine, energy crisis and high level of inflation in European states;
- In 2022, Romania has the lowest inflation rate among the analyzed countries;
- labor productivity has an upward growth rate;
- Romania ranks penultimate in the analyzed group in terms of labor costs. It is a favorable criterion for attracting investors;

Education:
- highly qualified workforce in the IT field (Dima, 2021);
- Romania has a large number of speakers of foreign languages. In 2022, Romania ranked third in the European Union in terms of studying foreign languages in pre-university education (Facts and figures about life in the European Union. European Union);
- the Romanian education system has satisfactory average results and prepares a good quality, competent workforce;

Technological infrastructure:
- a very good internet infrastructure, high speed internet, being on the first places in the world. It is a less visible but decisive technological requirement;

Demographic conditions:
- the size of the population (6th place in the EU in terms of number of inhabitants) determines a large market, but also a large active population with low labor costs;
- the proportion of the working-age population is higher than the average in the European Union and among the highest among the countries analysed;
- the low dependency ratio of non-productive populations compared to the working age population indicates for Romania, a lower pressure on the economy;

Legislative, institutional, fiscal conditions:
- state aid for companies that have a high level of employability;
- supporting investments that promote regional development by creating jobs in disadvantaged regions;
- simplifying the legal, financial, legislative, tax procedures and the operations that must be completed for the establishment of a company/branch;
- simplifying the method of paying taxes;
- the establishment in 2022 of the Romanian Agency for Investments and Foreign Trade, subordinated to the Government and under the direct coordination of the Prime Minister.
Positive aspects identified show that Romania has a high potential for increasing the degree of attractiveness of the business environment. Achieving this desired requires the continuous consolidation and development of these aspects.

It can be concluded that the development of a legislative framework and an institutional infrastructure favorable to the conduct of business have started to represent decisive factors for attracting investments, despite the traditional determinants of investors. Traditional determinants such as the availability, cost and quality of natural resources, the existence of a cheap labor force, are no longer the main criteria pursued by investors.

6. References


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