

NATIONAL COUNCIL OF SMALL AND MEDIUM SIZED PRIVATE ENTERPRISES IN ROMANIA – Friday 28 of March 2008

Dear Mr President, dear Mr State Secretary, dear members of the National Council of Small and Medium sized private enterprises in Romania,

Your invitation to address your membership today is a good opportunity for me to explain why the Belgian economic model can be a source of inspiration in your country and why it can be emulated. Its extreme dependence on SME also justifies my presence here today.

I shall start by describing some of the main features of the Belgian economy, its strengths and weaknesses. I shall then try to describe what in my view constitute the main advantages and drawbacks of the Romanian economy and finally try to give you a survey of the Belgian economic presence in Romania while making some recommendations.

I Belgium a small economic powerhouse but no wunderkind. Need for constant adjustments. Total reliance on the external world.

- The Belgian GDP per head was about 36500 \$ in 2007 (= 24300 €), ie a share of 2.7% of the EU GDP (with a population of 10.5 million inhabitants), ranking 7th in the EU.
- Growth has declined from an average of 4.9% in the sixties to 2% in the nineties. This is due to the growing importance of the services sector where the productivity gains are smaller than in the industrial sector. However GDP has grown again for the latest years.

- Belgium = a services based economy. The economic structure is to a great extent in line with the other developed economies : services make up 75% of the added value; industrial output makes up 19.2% of the added value (and 14.3 % of the workforce). The agriculture represents only 1.1% of the added value (and 2% of the national workforce).
- Belgium's economy is completely open and liberalized because it is heavily dependent on the external markets. 86.5 % of its output is exported, 76 % of which is directed towards the European markets and 84.7% is imported. The 12 new MS share is growing steadily (with 3.2 % of the total in 2005). Our wealth relies thus on added value.
- Type of enterprises: 97% of enterprises employ up to 50 people and 83% employ up to 10 people, mostly family enterprises. This group of companies represents 41% of the employment force and makes up for 28% of the added value of the Belgian economy. This typifies our economic structures and gives us a large flexibility in the face of a constantly changing economic environment.
- The rest of the employees and workers are employed in the large companies, Belgian and foreign.

The largest Belgian companies are FORTIS, KBC, DEXIA, UCB, AMBEV, Janssen Pharmaceutica, Solvay, Bekaert, Barco, Delhaize, Colruyt, Cofinimmo, Belgacom, Cumerio, D'Ieteren, Mobistar, Lotus Bakeries, Roularta.

Most big companies are foreign owned but based in Belgium: the chemical sector in and around Antwerp, the transport sector, the auto industry (Volvo, Volkswagen Ford etc...), the metallurgy in Wallonia. But Belgium lacks companies based on innovation and R & D and too few are specialized in electronics and electrical

appliances. Our economic activity remains too traditional and not strong enough in the new sectors, like the computer industry.

Belgium's economy was global before the word was invented. Its features explain why Belgium has constantly advocated the opening of the (internal) borders of the EU and the creation of a more integrated Europe. Belgium has always ranked at the forefront of those supporting and sponsoring the new European Treaty because it is in our national interest.

II Belgium's strengths and weaknesses.

- Our well being has geographical, economic and also humane roots:

- an ideal location in Europe
- a large sea port (Antwerp)
- an extensive road and fluvial network
- a pragmatic, high productivity and multilingual workforce
- social stability and a efficient system to solve the work conflicts
- a good school, technical and higher education system
- a efficient agriculture with large farms and exploitations (average size: 16.2 ha in the Flanders and 38.2 ha in Wallonia). Strength: sugar beets, potatoes, cereals, dairy farms, fruits and vegetables, farming and breeding, hop cultures)
- in 2006 the employment rate and the productivity grew together. This explains why the GDP grew by 3%.

Our drawbacks are:

- high wages and high taxation & social security which can hinder foreign investments (on which our well being heavily relies)
- a lack of mobility of the Belgian workforce

- too strong a concentration in certain economic sectors (like the chemical sectors which absorbs a large chunk of the industrial output)
 - a low employment rate in certain age groups (youth and older workers) and consequently a large unemployment rate
 - a fast ageing population (comparable to other developed economies)
 - a growing shortage of skilled and semi skilled labor force
 - a heavy dependence on energy imports.
- as a result Belgium is losing market shares in and around the EU. The risk that parts of its economic structure are moved elsewhere remains constant because of the fiscal, social and wage competition being waged in and outside Europe. There is a need for immigrant forces to make up for the lack of qualified and less qualified manpower. That is why among others Romanian skilled and semi skilled labor force is beneficial to our economy.

III Romania's strengths and weaknesses

I have spent 3 and a half year in Romania. I can now try to sum up Romania's economic strengths and weaknesses, according to the reports I received from the Belgian businessmen.

Romania is attractive for the following reasons:

- recent adhesion of Romania to the EU
- large flow of European structural funds to be expected (2007-2013)
- a growing purchasing power
- a regional market
- a staggering growth
- low taxation (flat tax of 16%)

- low wages and low labor costs (a sixth to a eighth of the Belgian standards) but that is a short term advantage
- a multilingual workforce
- some strengths in certain sectors (computers)

Its weaknesses unfortunately currently outweigh its strengths:

- lower productivity than in the neighboring countries
- not enough initiative of the workforce
- too much mobility of the workforce (looking for short term advantages)
- overall shortage of labor force (in spite of the large population) and large gap between the cities and the countryside
- no decent road and transport network. Road insecurity
- geographical distance from the developed center of Europe
- cumbersome, inefficient and procedure friendly administrations
- poor business practices (corruption) which the European Commission keeps pointing the finger at
- lack of judicial security and absence so far of a unified jurisprudence
- growing aspirations for higher wages (see strike at Dacia) and hence a risk of a growing social unrest
- a growing inflation which can kill growth
- as a result the growing current account deficit

IV Belgian economic presence in Romania and prospects to the future

Belgium ranks 21st in the list of foreign investors. Its rather modest presence is related to the geographical distance between both

countries. Furthermore Belgium trades mostly with its direct neighbors within a short radius.

Distribute list of Belgian companies. Main sectors reflect our economic structures: SME (public lightning, textiles, metallic structures, printing industry, food sector, services, electronics, real estate development).

Its bilateral trade is strong. Large surplus in favor of Belgium. But this is in line with our tradition (and also with the current structure of the Romanian trade), more than commensurate with Belgium's side.

All Belgian interests in Romania are profitable and fast growing.

The majority of these investments is not based in Romania only because of low wages and the attractive cost of labor. Rather many believe in the growing potential of the internal market and see large market opportunities.

Our banks have not taken part in the privatization process but have decided to start from scratch (greenfield investments).

V Some recommendations

Starting point

I am not going to lecture the audience. The gap with the European average is large (Romanian GDP/head = roughly 35% of the European average GDP/head). Historical and geographical reasons lie behind.

- Low taxation cannot last for ever if the country is to modernize and maintain its public infrastructures.

- Beneficial for the time being in order to attract investments. And also the only way to build up capital
- Government is right to increase wages and social provisions (ie purchasing power) but inflation target should not be outreached. Risk of losing competitiveness of export products on outside markets
 - On the other hand, shortage of labor force should be remedied by increasing wages and raising new skilled labor force from the countryside (40% of the population). Need to strike a fine balance.
 - Need for real political and judicial stability in order to increase Romania's attractiveness, which for the time being lags behind other new MS.

CONCLUSION

Romania's development is a long term process. The increase of the purchasing power must go hand in hand with the enhancement of qualified labor force on the Romanian labor market in order to fill up the needs of the economy. Judicial security will gradually increase, bad business practices will also gradually disappear, a new generation of qualified workers will appear. I am optimistic about the future of this country.

Thank you