A COMPARATIVE ANALYSIS OF THE BUSINESS INTERNATIONALIZATION PROCESS: ROMANIA AND MOLDOVA

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Abstract: *The topic of firms' internationalization has been intensively studied over the years, representing an engaging subject for business enthusiasts from both the business environments as well as the academia. The process of internationalization is the method usually used by firms to expand their economic activity outside their country of origin, as they try to expand their market share and gain a bigger customer base. The purpose of this paper is to gain a better understanding of the evolution of firm internationalization in Romania and Moldova after the fall of communism as both countries have gone through drastic changes in order to become a market economy. This paper discusses the main business internationalization trends after the fall of the communist system.*
Keywords: *Internationalization, evolution, investments, trade*

Introduction

The internationalization of companies is a topic often studied and encountered in the literature, capturing both academic as well as managerial interest. The process of internationalization is the method used by firms to expand their economic activities to capture a larger market share outside the country of origin. Johanson and Vahlne (1977) define internationalization as the multi-stage process in which firms strive to strengthen their market involvement and gradually gain engagement from foreign consumers. In today's economy, international trade has a strong impact on all the countries of the world, the involvement of national economies in international economic and financial exchanges is a condition and an important source for sustainable growth.

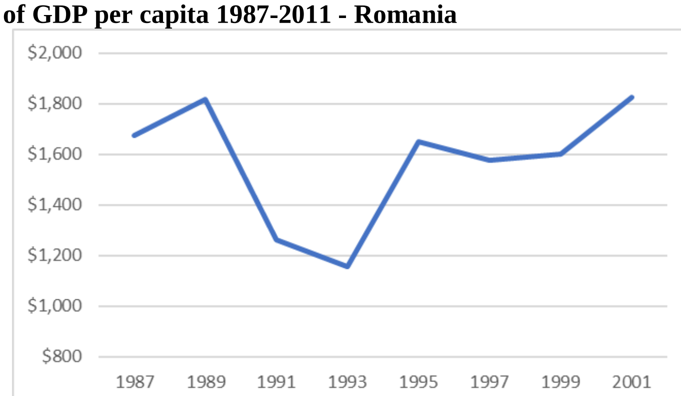
Literature review

The on-going process of globalization offers multiple business opportunities for companies when considering going international (Zain & Ng, 2006), and these opportunities usually tend to impact international growth or have a positive effect on the return on investments. According to Beer et al. (2017), increased trade can lead to more efficiency and productivity, thus have a positive effect on economic growth. Consumers take advantage of a great product variety and lower prices, and in an interconnected world characterized by a high degree of specialization, products can no longer be produced exclusively in-country, or profitably sold only within the domestic market. Internationalization is a strategy of those companies which identify business opportunities in the international market to enable them to obtain competitive advantages over competitors and decide to extend their activities abroad (Clipa, 2011). Fernandez and Nieto (2005) stated that the process of internationalization is considered the most complex strategy that a company may wish to follow. Economic transition has increased the number of companies that started taking part in the international markets (Ipsmiller and Dikova, 2021). Driven by the idea of growth and prosperity, many firms are willing to expand globally in order to increase their market share and gain a larger consumer base. Since the fall of communism, international business research in Central and Eastern Europe has received considerable academic attention (Jaklič et al., 2020), yet some countries were under the light more than others.

Business internationalization – Romania

After the fall of communism, Romania had struggled on its way to a market economy, as the economy was almost entirely state-owned, and the private sector contribution to gross domestic product represented nearly 12% in 1989. An analysis of the macroeconomic indicators between 1990-2000 show the existence of significant economic and social changes.

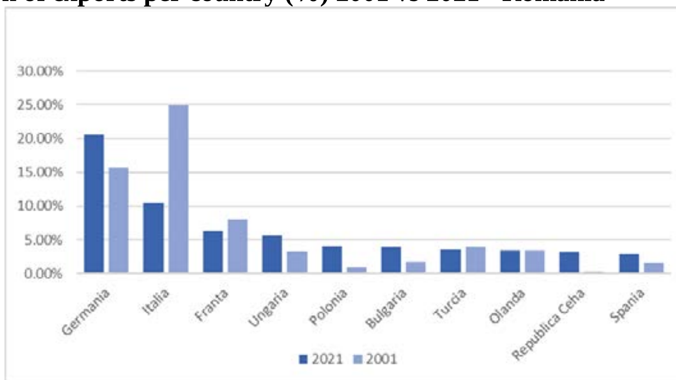
Figure 1. Evolution of GDP per capita 1987-2011 - Romania



Source: World Data Bank. http://databank.worldbank.org/

The GDP per capita values dropped significantly after 1989, indicating a lower standard of living for the people, and the country managed to return to its initial values a decade after. There was a decline in employment rate, specifically in the industrial and agricultural sector, and poverty rates went up. After 15 years of EU membership, Romania has seen a slow, steady increase in the standard of living due to many reforms in the economic, political, and judicial systems. In terms of foreign trade, the European Union became Romania's main partner of both exports and imports as well as inflows of foreign direct investment. In 2021, out of the top 10 destinations that Romania is exporting to, nine of the states are part of the European Union (figure below).

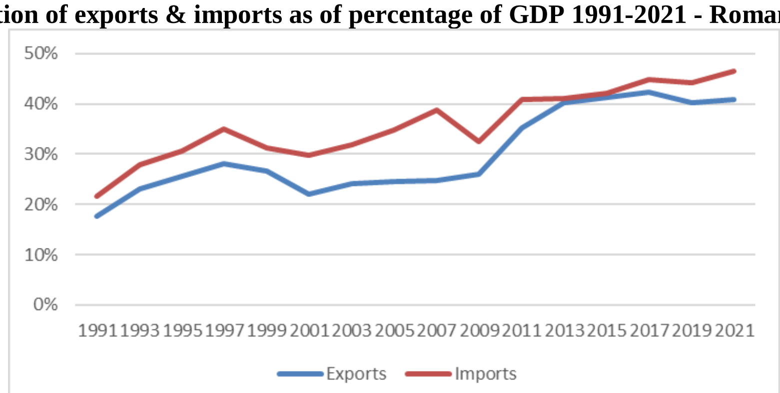
Figure 2. Distribution of exports per country (%) 2001 vs 2021 - Romania



Source: World Data Bank. http://databank.worldbank.org/

The top destination for Romania is Germany, accounting for over 20% of total exporting value, followed by Italy (11%), France (7%) and then Hungary (6%). Compared to 2001, exporting flows have changed quite a bit in terms of destination, as Italy was the main partner for Romania, followed by Germany and then France. According to the national institute of statistics, in 2021, Romania's top exports consisted of electric machinery, automotive, metals. In terms of importing, Romania has been following an uphill trend since 1990s, with a few slowdowns caused by the financial crisis in 2008 and the COVID health crisis in 2020. Romania has had a trade deficit since 1990, and it has been getting wider every year. The main reason is the deterioration in the energy trade balance, yet increased imports of food and industrial goods have also contributed to the bigger deficit. The figure below shows the evolution of imports and exports as of percentage of GDP from 1991 to 2021.

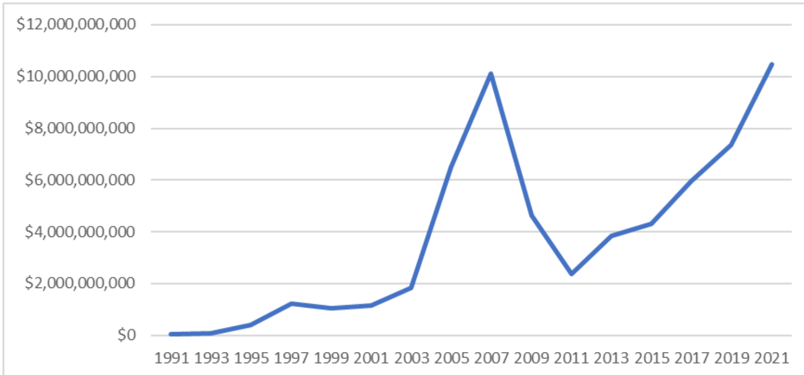
Figure 3. Evolution of exports & imports as of percentage of GDP 1991-2021 - Romania



Source: World Data Bank. http://databank.worldbank.org/

The top importers of Romania are doing business in the machinery, equipment, and transport sector, followed by base metals, chemical and plastic products and agri-food items. According to the national institute of statistics, the bulk value of imports is traded by companies that are privately owned, followed at distance by companies that are mainly state owned. Foreign investments in Romania were present before 1990s as well, especially in the oil and automotive industry, however, things started getting better after the fall of the communist system. The evolution of foreign investment in Romania changed for a marginal position before 1989 to a central position in 2006-2008. The figure below shows the inflows of FDI in Romania after 1990:

Figure 4. Evolution of FDI inflows 1991-2021 - Romania



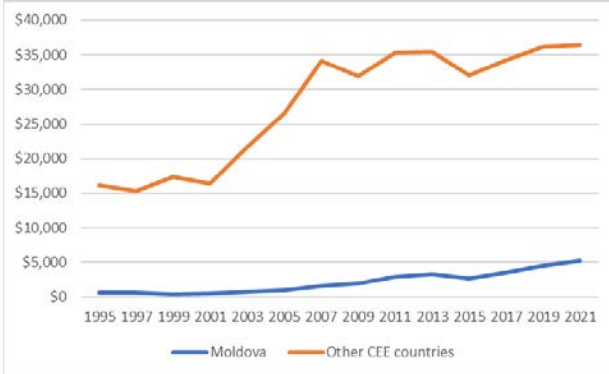
Source: World Data Bank. http://databank.worldbank.org/

Foreign investors started looking into Romania's benefits soon after the year 2000, and inflows really went upwards after the country was granted access to the EU; once the financial crisis in 2008 hit, investments went down, but there is an on-going upwards trend from 2011 onwards. Looking at the table above, there can be distinguished certain periods of time in terms of investments. From 1991 to 1997 there is an increase in inflows due to permissive legal system that attracted mostly individual investors; the period 1997-2001 is characterized by a significant political and legal instability as FDI inflows went down. Between 2001 and 2008, there is an ongoing increase in investments coming to Romania, access to the EU having a major role on the economic environment and attractiveness of the business environment. Thereafter, the effects of the financial crisis could be seen across many economies, therefore, there was a significant drop in FDI flows in Romania.

Business internationalization – Moldova

Moldova is a small country with a transition economy, and its participation in foreign trade started in 1992 when restrictions on exports and imports were lifted. In 1995, the country had established international links with 90 countries, and by year 2000 there have been signed cooperation agreements with a multitude of economies worldwide. In 2001, Moldova became a member of the World Trade Organization (WTO), and there are other free trade agreements that the country has in place. According to the Moldovan national institute of statistics, in 2021, over 60% of the export goods and services were going to the European Union members, yet nearly 45% of total imports were coming from the EU. Despite the positivity given by increasing number in both imports and exports, Moldova has been going through economic reform since 1991, the year it gained its independence, when the transition toward a market economy started. One current issue that Moldova is facing is the low GDP per capita as it is one of the lowest in Europe. The European Union has demonstrated its solidarity with the country along the way, and the most recent recovery plan involves investments of nearly 600 million euros in order to develop the private sector. The table below summarizes the evolution of GDP per capita from 1995 to 2021.

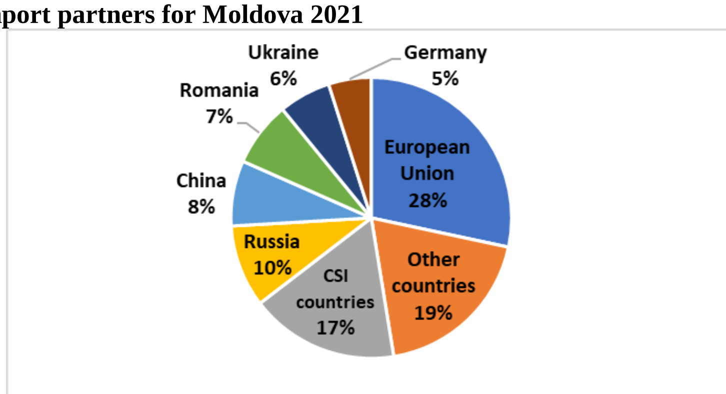
Figure 5. Evolution of GDP per capita 1995-2021 Moldova vs other CEE countries



Source: World Data Bank. http://databank.worldbank.org/

As it can be seen, Moldova's GDP per capita is far from the average of all the other CEE countries. Following the fall of the communist regime, the country passed through a complex transition process and experienced a noteworthy recession. Since then, the country has been experiencing a slow, steady increase; according to the World Data Bank, in 2013, the economy grew by 8.9%. The European Union signed a trade agreement with Moldova and its objective is to reform trade policies in line with the EU's plans; thus, foreign trade is a vital component for the country in maintaining international economic relations. Driven by a pro-reform approach, Moldova is making progress on economic reforms and strengthening democratic institutions. The main categories of Moldovan imports are machinery and equipment (19%), metals (15%), mineral products (15%), and chemical products (11%). The table below shows the main countries that Moldova receives products and services from.

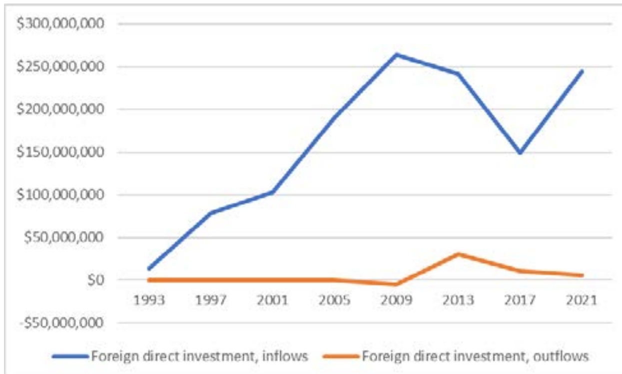
Figure 6. Main import partners for Moldova 2021



Source: World Data Bank. http://databank.worldbank.org/

The leading partner in terms of imports is the European Union (28%), followed by other countries (19%), Commonwealth of Independent States (17%), Russia (15%), China (12%), and Romania (12%). It is worth mentioning that up until 2020, when the COVID crisis hit, Romania was ranked first among top exporters to Moldova, while Russia was ranked second. Moldova has made constant efforts to attract FDI, thus there are no formal limits on foreign control of property and land, with the sole exception that foreigners cannot own agricultural or forest land. The government knows FDI is vital for sustainable growth and for a better standard of living. Moldova has built an agency to assist potential investors with information, facilitate contact with officials and organize visits if necessary. Moreover, the government signed 50 taxation avoidance agreements with various countries around the world. The efforts that the country has been making are starting to be seen as FDI inflows have gone upwards, yet due to the financial crisis in 2008, the values went back down. The table below summarizes the evolution of both the FDI inflows and outflows of the country.

Figure 7. Evolution of FDI inflows & FDI outflows 1993-2021 Moldova



Source: World Data Bank. http://databank.worldbank.org/

Soon after the proclaimed independence, Moldova has become a more attractive target in terms of FDI inflows, however, the financial crisis in 2008 brought the levels of investments back down to similar levels of 2003. In terms of outflow investments, due to its smaller size and reduce economic power, Moldova does not have an official policy for promoting or incentivizing investments abroad.

Conclusions

Romania and the Republic of Moldova (Moldova) have a special relationship based on common ground such as language, culture, history, and traditions. In terms of the economic environment, Romania's role in the Moldovan economy has been growing steadily over the years, as Romania is the most important trade partner for Moldova. In the context of European Integration, the EU encourages cooperation with border countries, thus, through implemented policies and programs, the relationship between Romania and Moldova is important. One of the main competitive advantages of Romania is the geographic location as it is easy to access, connected in any direction with neighboring countries through different modes of transportation, making this state an attractive target for foreign investors. Moreover, the human resources in Romania are wel-educated, motivated and at relatively low wages compared to the Western countries. In the past decade, Moldova managed to implement various comprehensive social, political and economic reforms that helped boost economic performance. One of the main factors to a sustainable business environment is peace and political stability, thus, Moldova has been trying to accomplish these goals through closer partnership with the European countries.

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