Interview: Sebastian Metz – Executive Director, AHK Romania



20.07.2015

Tags: association, chamber of commerce, doing business

The executive director of the German Chamber of Commerce in Romania explains why German companies are deeply embedded in the Romanian market, why the country should be seriously considered as an investment opportunity into Southeast Europe and how the local healthcare system is in need of extra funding, with public financing one of the lowest in the EU for a population that is one of the neediest.

Can you tell us about the German involvement in the Romanian market as a whole?

Germany has the largest economic footprint in the country in comparison to other foreign investors. Our bilateral trade reached EUR 20 billion (USD 21,96 billion) in 2014, with 20 percent of Romania´s total trade volume being conducted directly with Germany.

Germany is Romania´s leading trade partner while Romania is 25th on the German trading partner export list.

Germany´s capital stock in FDI with Bucharest is around EUR 7 billion (USD 7,69 billion) and according to official statistics is the third ranked country after the Netherlands and Austria, with 11 percent of Romania´s FDI coming directly from Germany. These figures do not take into account the investment of German companies taking place indirectly.

How do you explain this close relationship?

Romania as a Member State of the EU has a legal framework which is consistent, being at the average European level. Naturally there are further improvements required to the framework but even countries such as Germany have work to do with regards to implementing new legislation. Romania is the biggest country in Southeast Europe with a population of approximately 20 million. Geographically it is a relatively close European market to Germany and has a labor cost of only 30 to 40 percent of Berlin´s. When you take into account these facts, you have interesting investment and production opportunities as well as an attractive trading partner with disposable income increasing in Romania and the average income increasing by around 6 percent annually.

Romania´s economy grew by 3.2 percent in 2013 and 2.9 in 2014, the highest level of growth in all of Europe, largely due to an increase in internal consumption. Yet the potential and the need for growth remains, so as to catch up with the average European level. Romania does not want to remain a low wage country. It has huge amounts of public funds, with EUR 43 billion for the next six years, which can be put towards modernizing the health sector and creating a more efficient and time-saving support infrastructure. This is the reason why so many companies, not only German ones, are here in Romania, because they see a positive business framework.

One of the competitive advantages for Romania is in the business outsourcing field. AMGAN have relocated their global headquarters for IT security to the country because of the price of labor as well as the high quality level. How do you view such developments?

There has been a clear tendency in the last few years for all MNCs to establish their service centers in Romania, whether to cover the internal, European or international market. There are many international students speaking numerous languages and this is also a real advantage for the country. You also have a very IT aware population due to the importance attached to mathematical and scientific studies, a relic of the communist system. Romania is widely considered to be one of the hotspots in the IT world.

Why has this struggled to be transferred through to R&D?

The main problem is the lack of initiatives for cooperation between companies and universities. We see increasing activities in the field of engineering, especially the German automotive sector, which in the long term will look to R&D. There is a bottleneck in the area of cooperation between all the stakeholders for R&D.

What we see is that the financial engagement, be it private or public, is very low in R&D. Romania invests around 0.4 of GDP percent in this sector as opposed to Germany with three percent. This is

not enough to become an R&D hub for Southeast Europe. Along with infrastructure, what is required is financial support from the authorities in tandem with the private sector.

How do we explain this situation?

Romanian companies are not particularly strong in R&D, there is a shift in the cultural mind-set required, with a focus on this sector's importance as a strategic investment. This could be put down to a failure to plan for the long-term, being too short-termist, with a lack of attractive financial support from the state. The focus of the new European financial program is to increase investment in the R&D sector and this will hopefully have a positive impact.

Public financing of the healthcare system is one of the lowest in the EU and yet the population is one of the neediest. How has it reached this stage and what is required to address this longstanding problem?

The government claw-back tax has been an attempt to solve this problem but it has not resolved the issue of the under financing of the healthcare system. The issue of transparency of decision-making is also important. When I look at what the government wants to do in terms of decreasing the social contributions to have a more attractive investment market in Romania, then inevitably this will have an impact on the healthcare system provided.

Tell us about the involvement of German companies in the pharma sector in Romania?

From a trade perspective, the country is in a very prominent position in the pharma sector, with Romania importing 17 percent of its products from Germany and with regards to the medical devices sector this number is at 33 percent. These are significant numbers, and more generally Romania imports 90 percent of its products in the medical devices sector.

How do you see the outlook for the pharma sector in Romania?

Imports from Germany have increased in this sector by around 5 to 6 percent. We are cautiously optimistic but there remain many areas for improvement. The key is to solve the financing gap in the healthcare system. In the medical devices sector there is also a clear positive trend.

Can you tell us about the Chamber itself, the services that you offer, in particular to pharma companies that are perhaps contemplating entering the Romanian market?

For companies that want to enter the market, be it as an exporter, supplier or with a production site, we have specific services such as research for joint-venture partners, the investment sideWe are also involved in the recruitment and administrative aspects. All of our work is done in-house.

We have also established our own court of arbitration which is orientated around companies, to provide them with an alternative for solving commercial conflicts. Our model is the International Court of Arbitration, where we have looked at their rules and regulations. When you are looking at alternative dispute resolutions in the commercial field, one should consider putting in your contract an arbitration clause which can spare you numerous future difficulties.

What is the Chamber's relationship with the German embassy?

We have an extremely good level of collaboration with the embassy. We are the official representatives of German industry in Romania and supported in this task by the German minister of economy. The embassy represents the German government and there is continuous and deep collaboration and communication between our two institutions.

Do you have a final message to German companies contemplating entering the Romanian pharma market?

Every German company should take a comprehensive look at Romania, seeing it as a strategic approach to grow their presence in the region. Before entering the market they should also be informed as to the numerous challenges, namely the harsh competition and structural inadequacies. There are MNCs who are active in the country, who have not disengaged from the market, a sign that there is something to play for. This would be my message to German companies: Romania is a country worth considering. Take a strategic approach to this market, because the country is developing a positive growth tendency which will lead to growth in the pharma and medical sector.

Click here to read more articles and interviews from Romania, and to download the latest free pharma report on the country.

See more interviews