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**REGIONAL DEVELOPMENT BY INCREASING THE
COMPETITIVENESS AND COMBATING THE TAX EVASION**

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1. Current economic situation in Romania
2. Tax evasion in Romania
3. Innovation, the global process of technological and commercial creativity
4. Conclusions

Abstract:

Latest figures show that Romania is importing, more than it is exporting, chemicals, fuel and food, accounting surplus (exports exceed imports) regarding raw materials and a near-zero balance (exports almost equal to imports) in group "machinery and transport equipment". Romania is also facing an unprecedented high level of tax evasion, while the Government has no strategy in order to reduce or eradicate it, but rather adopts laws to collect as much as possible from the good faith taxpayers without a adequate plan aimed to combat the high level of tax evasion.

Although is in full recession, the Government has not yet developed a proper plan aimed at restoring damages brought about high tax evasion and providing incentives, thus contributing to the economic recovery.

Through this study, we aim to identify a series of actions, especially the ones from the fields of competition and innovation to cover expenses in conjunction with appropriate decisions to combat tax evasion and to allow the recovery of business, in our opinion, the only solution for a healthier economic environment in Romania.

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JEL Classification: R11, O16, O23

1. Current economic situation in Romania

In figures, the exports in the first three months of the year were worth 10.8 billion Euros, while imports amounted to 13.6 billion Euros. Comparing these data with those in the first quarter of the last year, the INS notes down that exports grew to 19.4% in lei (23.4% in euro currency) and imports increased by 10.9% the values expressed in lei (14.4% in euro).

The dynamics based on the difference between the values expressed in lei and the calculated values expressed in euro was due to the appreciation of the currency from the months of January to April 2010, with values ranging between 1.6% and 4.5%, for the corresponding months of 2009.

In April 2010, according to preliminary estimates by the National Institute of Statistics¹, exports FOB amounted to 11.8571 billion lei (2.8833 billion euros) and CIF imports amounted to 15.3553 billion lei (3.7338 billion Euros). Compared with April 2009, exports rose by 29.8% to values expressed in lei (33.3% values in euro) and imports increased by 18.1% to values expressed in lei (21.2% the values expressed in Euros), and compared to March 2010, in the month of April 2010, exports decreased by 4.3% to values expressed in lei (4.7% in euro) and imports decreased by 4.0% for the values expressed in lei (4.3% in euro). The commercial deficit FOB-CIF in April 2010 was of 3.4982 billion lei (850.5 million Euros), below than April 2009, 375.3 million lei (66.7 million).

The FOB exports achieved during January 1st and April 30th, 2010 were 44,530.0 million lei (10,811,500,000 euro) and CIF imports were of 56,117.0 million lei (EUR 13,624,700,000). Compared to the time period of January 1st and April 30th, 2009, exports rose by 19.4% for values expressed

¹ National Institute of Statistics, International trade in goods in April and during 1.I-30.IV 2010

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in lei (23.4% in euro currency) and imports increased by 10.9% for values expressed in lei (14.4% in euro).

The commercial FOB-CIF deficit during the time period of January 1st and April 30th, 2010, was of 11,587.0 million (2.8132 billion Euros), with 1.7487 billion lei (329.8 million Euros) less than January 1st, April 30th, 2009 time period.

The trade value of goods during January 1st, April 30th, 2010, was of 32.8396 billion lei (7.9758 billion Euros) for deliveries and 40.5351 billion lei (9.8468 billion Euros) for entries, representing 73.7% of the total exports and 72.2% of the total imports. The dynamics based on the difference between the values expressed in lei and the calculated values expressed in euro was due to the appreciation of the currency for the months of January to April 2010, with values ranging from 1.6% to 4.5%, for the corresponding months of 2009.

Table no.1

	Balance FOB-CIF 2009 ^{p)}									Balance FOB-CIF 2010			
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. ^{r)}	Feb. ^{r)}	Mar. ^{r)}	Apr. ^{e)}
Billion lei	-3,87	-3,28	-3,18	-2,33	-3,19	-4,83	-3,91	-3,61	-3,78	-1,86	-2,63	-3,60	-3,50
Billion euro	-0,92	-0,78	-0,76	-0,55	-0,75	-1,14	-0,92	-0,84	-0,89	-0,45	-0,64	-0,88	-0,85

Source: INS

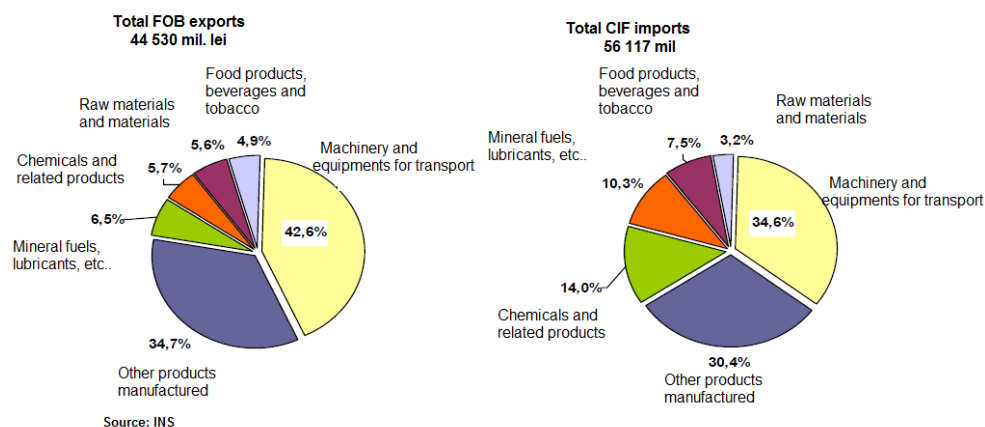
During the time period of January 1st up to April 30th, 2010, a major share in the structure of exports and imports are held by groups of products: machinery and transport equipment (42.6% and 34.6% for export and, respectively, import) and other manufactured products (34.7% 30.4% for export and import respectively).

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The structure of foreign trade
in products groups, during 1.I-30.IV 2010



Source: INS

2. Tax evasion in Romania

According to the reports of PwC Romania, tax evasion in Romania amounts to at least 15 billion, given that only the VAT fraud regarding the intra-Community acquisitions is 3.3% of GDP, almost four billion, this mainly because of poor regulation laws. Most of the tax evasion related to VAT represents the defrauding of the state budget from the food trade. Ministry of Agriculture believes that only in agriculture the tax evasion is 4-5 billion. The evasion occurs mainly on imports of vegetables, fruit, meat and flowers but also in the gray economy. But in an ad hoc ranking, the highest tax evasion is in tobacco, alcohol and petroleum products, as well as food which enter Romania without taxes, being in the Extra-Community system, and these will be sold in different locations without charge, which will lead to the lack of payment of VAT to the budget.

Regarding the specialized control of the Ministry of Finance, from January to May 2010, the Financial Guard has conducted over 85,000 such inspections. Following these actions there have been applied 57,000 fines totaling 118 million lei. Tax Commissioners have determined that the total additional tax liabilities resulting from the controls was about one billion Euros and the protective measures were taken regarding 2.7 billion lei. Last year, during the same period, the Financial Guard has deployed more than

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70,000 unannounced actions, which concluded in about 79 000 acts of control, according to the National Agency for Fiscal Administration (NAFA). 51,000 fines were imposed; and the loss was established to over one billion lei. Comparing the data shows that, this year, the tax obligations established, for the operators, by the Revenue Commissioners, have grown four times higher as compared to the corresponding last year period.

All this led to the Romanian Government adoption of a legislative emergency ordinance to increase the budget revenues, whose level was deeply affected by the economic and financial crisis, and to achieve a balance between the revenue and the expenditure levels, correlated with the macroeconomic objectives. The purpose of the law is to implement comprehensive measures in order to broaden the tax base, to increase the direct taxes and the local taxes.

3. Innovation, the global process of technological and commercial creativity

There are a number of factors that influence the effectiveness and the impact of the European cohesion policy. A context characterized by price stability and balance budget will benefit from lower interest rates. Also, this stimulates investment and capital accumulation, increasing both productivity and employment of labor. This measure also facilitates the increase and the diffusion of innovation and reduces the cost of capital¹.

The cohesion policy contributed significantly in 2000-2006 to the research efforts and to the development and the consolidation of the innovative capacity, in certain regions particularly. Based on the programs available on January 1st, 2007, the proportion of the cohesion policy resources to be invested in innovation research and development will be over two times higher in 2007-2013. In fact, in 2007-2013, the guidance system of loans will direct 64% of the Convergence resources and 80% of the regional competitiveness and employment work to cover the cost of innovation.

¹ See, for details, The Fourth Report on Economic and Social Cohesion of the European Commission (SEC (2007) 694), p.3.

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Using these credits, however, remains to the capacity of the underdeveloped regions to manage research, development and innovation projects sufficiently numerous and well prepared to ensure that they will be actually used and will not be diverted to low value-added investment.

Innovation, according to the principles of the English economist Schumpeter¹, is evidenced through a series of activities more or less interdependent: a vertical motion transfer: (knowledge→ research → new product → new technology), horizontal transfer movement: (innovations → new applications), a new form of organization (management) of the company activity → a new image. Therefore, innovation is the specific instrument of entrepreneurship, the means by which it exploits change as an opportunity for a given activity.

Romania, as a country that has recently joined the European Union, must identify a series of improvements necessary to be implemented for coping with European competitiveness², to innovatively develop abilities and effectively supporting the national organizations through the stimulation of the accumulation of knowledge.

Innovation³ is a global process of technological creativity and business, the transfer of new ideas or a new concept until the final stage of a new product, business or process service accepted by the market. All dealers who are providing proof of ideas, can access European funds allowing for an alternative to supplement the budgets and to increase the competitiveness through innovation.

¹ Innovation is the action whose outcome is to produce something else or to produce in a different manner. It is recognized that under the principles of Schumpeter, innovation consists in the following activities: creation of a new product, introducing new manufacturing methods, entering a new market, calling for a new material, new business organization, creating a new company image.

² See, for details, Willi Semler et al., *Financial Markets and the Macroeconomy*, Ed.Routledge, London, 2009, p.336

³ See the OECD definition from the Frascati Manual, 198.

4. Conclusions

Most European efforts made to reduce the regional disparities within the EU are achieved by the cohesion policy. These efforts are evidenced through conditional grants, and the area attached to the conditions and to the system of implementation. In particular, the Member States are required to develop a medium term strategy for the use of resources to co-finance the European aid through national resources, to work in partnership at national, regional and local levels and to comply with the EU laws and policies. These conditions led to the development of a common management system used at the European, national, regional and local level.

In the current economic context the number of economic operators having difficulty in supporting their sources of investment for modernization and development activities is increasing, including difficulties in accessing credit in the financial market. Currently, the European Commission presented a plan in order to simplify the procedures to participate in the EU funded research projects. The overall objective of this plan is to create a transparent and attractive participation for the best researchers and innovative companies in Europe and beyond¹.

It is considered essential for the European research sector to exploit their full potential, considering the need to consolidate the economic recovery and develop new sources of growth and jobs to replace those lost during the crisis. It is necessary that the best scientists and most innovative companies should join them.

FP7 has proved to be very attractive for the research community: since 2007, 33,000 proposals were received and almost 7000 projects have been funded, and almost all European universities are participating in this program. Several concrete measures were taken to simplify the process, the same way during the FP7 establishment as during its development. For example, FP7 has introduced a new Guarantee Fund and a unique registration facility, allowing organizations to apply for funding for several

¹ See, for details COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - SIMPLIFYING THE IMPLEMENTATION OF THE RESEARCH FRAMEWORK PROGRAMMES COM (2010) 187 Brussels, 29 April 2010.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

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projects in different years and register only once. Currently, eight out of ten participants in FP7 are exempt from ex-ante verification of the financial capacity, and three of four participants no longer have to provide certificates regarding the financial statement required for regular applications.

To enhance competitiveness through innovation,¹ we believe that all those who provide proof of ideas, can and should access the EU funds in the period until 2013 as an alternative to supplement the budgets which we all want bigger, and through preventative measures, to reduce the phenomenon of tax evasion which Executive is ultimately forced to take.

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¹ See, for details, Charlie Karlsson et al., *New directions in Regional Economic Development*, Ed. Springer, Berlin, 2009, p.8