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Procedia
Social and Behavioral Sciences

Procedia - Social and Behavioral Sciences 221 (2016) 203 – 210

SIM 2015 / 13th International Symposium in Management

Surviving and Thriving in the Global Economic Crisis: the Journey and Potential of the Romanian IT&C Sector

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Abstract

We are living in a new, post-industrial age which is best described by all kinds of new information technologies. This new reality is leading all of us into the society of the future, a society of new knowledge. This statement also describes the present reality of Romania, and the upward trend of its information, technology and communication (IT&C) sector. Even with the negative impact of the recent global economic crisis on the overall Romanian economy, the IT&C sector not only found a way to weather the global crisis, but also propelled Romania into one of the top countries worldwide in this field. For the first time in Romania's economic history, the IT&C sector contribution to the economy (~6%) surpassed all the other sectors, including those of agriculture and construction. The economic future of Romania looks bright; especially considering that globally, the technology sector is poised to grow faster than any other, and for this country the IT&C sector represents a very important competitive advantage. This article presents: (1) how the IT&C sector survived the economic crisis; (2) how it changed during the last couple of years, and (3) what the economy of this country will look like if Romania successfully doubles the growth of its IT&C sector, knowing that it already has become one of the most attractive nations for outsourcing because of its strong workforce talent.

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Peer-review under responsibility of SIM 2015 / 13th International Symposium in Management

Keywords: Crisis; Future; Information Techonology and Communication, Romania; Potential; Economy; Outsourcing

1. The global financial and economic crisis

The economic crisis, which began at the end of 2007, and amplified one year later following the collapse of Lehman Brothers, has certainly had a big negative impact on the entire global economy. Prior to that, the United States federal government placed Fannie Mae and Freddie Mac, two of the largest mortgage holders into conservatorship as many mortgage holders were defaulting on their loans and so the value of housing plummeted

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Peer-review under responsibility of SIM 2015 / 13th International Symposium in Management
doi:10.1016/j.sbspro.2016.05.107

(Uslaner, 2010). That was the beginning of the end. Soon after that, the economic turmoil deepened, and quickly spread throughout the world, in what many observers called the worst downturn since the Great Depression of the 1930s. The economic traumas turned fast into a crisis of public confidence, which was widely seen later as a crisis of trust by an outraged public (Barry, 2009); (Economist, 2009).

Some economists argue that the long boom era before the crash of 2008 was in part caused by increases in the service economy due to the new technologically developments. The late 1970s, leading up to the mid 1990s saw a surge in new technologies such as the personal computer, and the Internet. Nowhere were these technologies more impactful than in the financial sectors, enabling banks to have both a global strategies, and presence. Following the dot-com bubble of the late 1990s and with the advent of global technology distractors such as Google, software became the new raw material of the 21st first century. In fact, before the crisis made its appearance, the world was actually going through what Marek Dabrowski (2010) calls "the golden period of global growth". In fact, the years 2003-2007 recorded a remarkable pace of global economic growth and macroeconomic stability. Looking back, that period of prosperity and relative stability resulted from different factors. First of all, the world economy benefited from comprehensive and far-reaching policy reforms, conducted in a number of important countries and regions in the early 2000s. Secondly, the vast majority of less developed countries at the time, adopted a more prudent attitude, which resulted in an impressive disinflation trend worldwide, the rapid building up of international reserves and a substantial improvement in fiscal balances (Dabrowski, 2010). The fact that those positive trends were also accompanied by a unique calm in global financial markets has done nothing else, but to help the global economy.

The major beneficiaries of this positive trend were the emerging market economies, as they were growing at a much higher trend compared with the already developed countries, and were contributing to impressive progress in global economic and social convergence. This trend was also experienced by Romania, and the rest of the emerging market economies of Central and Eastern Europe. Those countries also benefitted from gaining full access to a single European market, as they were now new members of the European Union. Once the global crisis struck, all of the favorable factors previously describes disappeared. In the financial sphere, liquidity and credit dried up, capital started to fly back to the main financial centers, especially in the US, stock markets and commodity prices declined, the risk for both sovereign and private borrowing grew in a dramatic way, and last but not least, many national currencies depreciated threatening with the massive insolvency of economic agents borrowing money in foreign currencies (Aslund, 2009). In the real sphere, external demand for exported goods and labor quickly declined, and some countries also experienced banking sector troubles.

Mr. Martin Wolf, associate editor and chief economics commentator at Financial Times, argues in his new book "The Shifts and the Shocks" that the world economy is still stuck in low gear and set on an unsustainable course. He argues that the post-crisis recovery has been feeble because too many policymakers failed to understand the fact that unfettered finance transformed the saving glut into a credit bubble. Far too little emphasis was put on restructuring unplayable debts. He believes that the only way to deal with today's underlying problems, a fragile financial system, and a secular weakness in demand may be to move away from bank-based credit and rely on permanent budget deficits financed by central banks. Mr. Wolf argues that forcing banks to match their deposits with safe government bonds would eventually reduce the risks of bank crashes and encourage a healthier reliance on equity finance. In turn, permanent money-financed deficits would provide a safer way to sustain spending than private-assets booms and busts. If done responsibly, they need to cause inflation (Wolf, 2014).

Despite the fact that the world is still fighting to end, or at least reduce the many negative aspects caused by the financial crisis, one thing is certain: during all these years and prior to that, technology has reshaped the way we live our life. This article summarizes a disparate range of data and information to present a clear and powerful narrative as to the case study of the Romanian IT&C sector's past, present and future within the Romanian and global economy.

2. The economic crisis in Romania

The global financial crisis made its presence felt quickly in Romania too. In fact, in 2009, the country's gross domestic product (GDP) faced a significant decline (about 7.1%) (Aslund, 2009), and sharp declines were registered in the industrial production, and construction sectors, in exports, and even in the landing activity (Aslund, 2011).

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