

WHY FOREIGN MARKETS FOR ROMANIAN FIRMS?

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Abstract

The internationalization of Romanian firms has become a strategic necessity in the context of accelerated economic globalization. Starting from the legitimate question regarding access to foreign markets under conditions of limited domestic volume, this study explores the fundamental reasons for this process, integrating economic, competitive, and managerial motivations. The study shows that the main reasons include survival, growth, and obtaining competitive advantages, grouped into firm-specific interests (stability, diversification) and business interests (sectoral opportunities, global demand).

The study analyzes the rationales behind the internationalization of Romanian firms, starting from the legitimate question of accessing foreign markets despite a limited domestic volume, which is significantly lower than that of major markets (over 100 times smaller). The saturation of traditional markets, external opportunities, and globalization drive expansion beyond national borders, generating motivations linked to sectoral supply and demand, competition, and competitive advantages. These are categorized into firm-specific interests (survival, growth, stability) and business interests (sectoral optimization).

Keywords: strategy, strategic analysis, digital, gap UE-USA

Classification JEL: L1, L2, M1, M2, M3

1. Introduction.

Why foreign markets for Romanian firms? The question is justified given that firms that internationalize come from national markets with a transaction volume up to 100 times larger than the foreign markets they wish to enter or are already operating in.

Saturation of traditional markets, external opportunities, and business environment globalization are all reasons why firms seek to cross national borders through their activities.

The reasons for internationalization represent a sum of motivations generated by restrictions imposed by the evolution of sectoral supply and demand (in a business domain) as well as the characteristics of supply and demand on a specific consumer market (competition) and even at the product or product range level.

The reasons for internationalization are linked to survival, growth, ensuring stability, recovery, or contraction of activities in certain markets. The essence of any action is tied to obtaining competitive advantages in an economic sector or business domain. Thus, the reasons for internationalization are directly linked to competition and competitiveness, though it cannot be overlooked that developments in demand also generate the need for a firm's internationalization.

Competition manifests at the firm level and business level, so the reasons for internationalization can be grouped into two categories of interests: firm-level interests and business-level interests.

National Market Context. The Romanian domestic market has structural limitations, such as saturation in certain sectors and a transaction volume significantly smaller compared to major foreign

markets (Pele, 2019). Romanian firms face stagnant domestic demand and intense competition from foreign players, generating pressures for external expansion (Meghisan and Din, 2012).

Although the size of the domestic market may seem sufficient for certain sectors, economic reality shows that firms limited to national borders expose themselves to saturation and local volatility risks. Internationalization is not just a growth process but a mechanism for arbitraging global opportunities and local constraints.

The phenomenon is even more interesting as we observe Romanian firms choosing to enter foreign markets with significantly smaller transaction volumes than their home market. This apparently paradoxical decision is explained in the literature by the Uppsala model, which suggests firms seek to reduce "psychic distance" and gain experience before targeting large-scale markets. The classic Uppsala model emphasizes gradual progress based on accumulating experiential knowledge and internationalization as a survival and growth mechanism (Johanson and Vahlne, 1977).

Business environment globalization amplifies these dynamics, turning national markets into insufficient spaces for ambitious firms. External opportunities arise through identifying profitable markets and responding to global demand, avoiding dependence on a single territory.

General Motivations for Internationalization. The reasons for internationalization derive from the interaction between sectoral supply and demand, characterized by domestic saturation and external opportunities. Main motives include responding to increased domestic competition, seeking profitable businesses, and following migrating international customers. The literature identifies factors such as excess capacity, better prices on foreign markets, and growth strategies (Antonie Nitu and Feder, 2010).

At a theoretical level, internationalization ensures competitive advantages through diversification, stability, and recovery, directly linked to competition. Global demand evolution generates the need for expansion, grouping interests into firm-specific survival and business optimization.

Motives propelling capital across borders can be synthesized into three major vectors (Levitt, 1983; Dunning, 1993):

Saturation of traditional markets: When domestic demand plateaus, marginal profitability declines, forcing firms to seek new consumer pools.

External opportunities: Access to technology, skilled human resources, or tax facilities in other jurisdictions.

Business environment globalization: Consumer preference standardization makes a successful Romanian product highly replicable in the region (e.g., Central and Eastern Europe).

Specificities for Romanian Firms. For Romanian SMEs, internationalization is driven by internal factors such as managerial characteristics (international experience, language skills) and external factors like EU funds access. Empirical studies show 45% of firms expand through target market partnerships, and 37% to attract investors, underscoring the role of networks and innovation (Lupascu, 2022).

Export performance depends on international business knowledge and pro-export attitudes, validating hypotheses of positive links with external sales. The Romanian context involves challenges like trade barriers and currency instability but also advantages such as favorable price-quality ratio.

2. Why do romanian firms need internationalization?

2.1. Internationalization for defensive reasons

Defensive internationalization against international competitors is sufficient motivation when a firm sees its markets invaded by rivals. In such cases, it can respond by entering competitors' markets, including their home markets. The result is valuable competitor insights aiding domestic operations. When Vodafone and Telecom began aggressively competing with Digi Romania in the

Romanian telecom market, Digi responded by creating new subsidiaries in European markets where they held significant shares.

National markets have gradually become international, where powerful external competitors can emerge. Firms interested in international operations or already present must consider international competitors as factors limiting market and consumer access.

Thus, large Romanian firms operating solely in the domestic market can suddenly shift from market leaders to challengers or followers, overtaken by European or even Chinese competitors entering from abroad. Romanian firms must account for international rivals, shifting from national to international strategies to implement growth via offensive and defensive tactics. This improves firm growth rates by accessing external markets with higher growth than domestic ones.

Increasingly, firms worldwide are supported by home states, like China, to enhance global competitiveness. Competition comes not only from strong industrialized nations but also developing ones.

Firms must analyze and monitor markets considering key factors changing international competition configuration:

- Increasing market similarities and integration;
- Elimination of tariff barriers;
- Technology internationalization;
- Communications dismantling geographic barriers and improving information;

States supporting their firms as new global competitors. Pacific basin countries, especially China, have become strong rivals to traditional European ones in many fields. Future monitoring should focus on China and some Central and Eastern European countries. Romanian firms face strong competition from Czech firms in pharmacies or private hospital networks, and Polish firms in agribusiness like fruits, beverages, or grain/meat processed products.

2.2. Exploiting different economic growth rates

Romanian firms are disadvantaged by the low national economic growth rate, suffering competitive disadvantages versus European and Asian firms operating across multiple EU markets.

Thus, Romanian firms must expand into faster-growing European countries to capitalize on accentuated growth opportunities. Even developing countries can be key markets where Romanian firms gain advantages amid rising growth rates. A good example is Dacia, which expanded operations significantly in South America over the last 5 years, countering modest European auto market growth.

In the 1980s, the highest global growth rates were in East and Southeast Asian economies (excluding Japan and South Korea), dubbed the great dragon (China) and little dragons (Malaysia, Thailand, Vietnam, Indonesia), with rapid population and high economic growth. Communist-era Romanian firms entered these markets supported by state policy via bilateral ties. Unfortunately, in the 1990s, these contracts were lost, leading to bankruptcy of state firms like agribusiness processors (e.g., Contim Timisoara pork plant).

The 1990s saw growth in South Asia, Middle East, and traditional Southeast Asia. China stood out as the world's most active economy, enabling spectacular growth for present firms. Meanwhile, Romania underwent structural changes, with firms absent from these markets.

From 2000-2010, China and Russia marked spectacular evolutions. In Europe, Western economies like Germany, France, Italy, UK became active growth zones. It was a recovery period for larger Romanian companies entering European markets gradually, like Dacia cars. Alongside, small wood processing firms succeeded in richer Western countries, like Mobexpert brand.

Central and Eastern Europe also saw growth preconfigurations, but occupied by stronger Western firms.

Post-2009-2012 crisis, Europe recovered slowly, with consistent growth in Middle East, East Asia. Latin American states also showed strong growth with prospects for Romanian entry. However, Asian and South American markets remained distant without developed sales networks.

These growing economies cannot cover growth in many sectors solely with existing firms. Weak competition representation offers an organic necessity to enter and compete (Desai, 2002).

Under differing growth, firm-level competition shifts mandatorily from national to international/global markets, primarily by transferring competition to rivals' home or third markets.

2.3. Capital protection

Simultaneously with the need for growth, there arises the necessity to maintain and protect corporate capital by providing security during recessionary periods through international activity. For instance, European economies are typically affected by recession approximately six months after such trends manifest in the U.S. market (Pop and Dumitru, 2001).

Markets with local and regional trends are less affected by the consequences of a generalized recession. Therefore, the effects of regional economic recession can be countered by a more active orientation toward foreign markets unaffected by this process, such as South Asia. During periods of economic recession in the U.S. or the E.U., a more active focus is directed toward markets with natural resources or cheaper labor in Asia or South America. In this period of economic stagnation, Romanian firms are compelled to migrate toward more stable markets, even if these markets are geographically more distant than traditional European ones.

Through this process of extended internationalization into geographically distant areas less exposed to the same economic pressure factors, it is possible to achieve a rapid transfer of production factors from one European market to another in Asia or South America with minimal costs, as economic growth allows for the compensation of capital transfer costs. Recent EU-MERCOSUR and EU-India agreements favor this process for European firms, including those from Romania.

2.4. Obtaining strategic competitive advantage in the context of regionalization or globalization

The opening and unification of markets in the face of competition tend to represent the primary motive for business internationalization. The legislative and political framework is the main factor in opening European markets (EU), Arab markets (Arab League), South American markets (MERCOSUR), East and Southeast Asian markets (ASEAN), or the Pacific market (Pacific states in Asia, South America, and Australia).

Large Romanian firms cannot successfully implement a competitive strategy by focusing solely on the European market or nearby markets in Eastern Europe. They must expand into new regional markets by establishing a presence in one country within these regions and subsequently continuing their regional expansion. The current era has become one of regional and global competitiveness and rivalry, forcing successful Romanian firms to operate in multinational and transnational markets, as markets no longer belong exclusively to a single state among those engaged in regional economic-political structures. To achieve a stable business position in these markets, large Romanian firms must operate across the entire geographical area of the regional economic-political structure.

Beyond favorable political-legislative factors, other categories of factors unify markets, forcing firms to redefine the market area in which they must operate. Air and road transport, for example, allow Romanian businesses to expand following a multinational model in Europe, especially for goods with higher added value and low volume, such as food products. Likewise, the wholesale trade sector can be favored. Many firms with such activities are currently located near international airports or along major highway routes.

Romanian firms wishing to achieve success and strategic competitive advantage are obliged to attain a superior capacity to act and react to competition in the national market by countering their expansion with offers adapted in price and quality. The penetration of Chinese firms into the automotive sector forces the Romanian car manufacturer Dacia to reposition itself in the Romanian market. Simultaneously, Dacia is compelled to expand into new third-party markets, such as

MERCOSUR or South Asia, as well as the China and ASEAN markets, from which its main competitors originate.

In the global market, large transnational companies view certain national markets as segments of the global market and potential targets. They aim to identify segments where competition is weaker and add them to their market portfolio. This is especially true under the conditions of increasingly sharp regionalization, such as within the EU, but also in terms of inter-regionalization through EU agreements with other regional groups from which powerful companies emerge. In this situation, it is important to both strengthen Romanian companies in the national market and establish representative offices or active subsidiaries of Romanian firms in stronger EU markets and countries with which the EU has free trade agreements or reduced customs duties.

A significant or even incipient development base in one economic region of the world can provide Romanian companies with access to other markets in the same region while simultaneously discouraging competitors. International operating bases are part of a strategic thinking model whereby the firm mobilizes over the long term to develop competitive skills with a global slant. This strategic thinking groups three components: building and raising awareness of a global brand, which can become a very powerful competitive tool; the capacity to distribute and produce on a worldwide basis; and international economies of scale and experience effects.

The synthetic study of internationalization premises instrumental in obtaining strategic advantage highlights several benefits (Desai, 2002):

- * Deregulated capital markets, allowing for the rapid transfer of capital;
- * Information and communication technologies that enable remote actions in real-time;
- * Highly active and dynamic forward financial markets, supported by new forms of financial assets, such as options and derivatives, which allow speculators to conduct transactions in any currency anywhere in the world where profit opportunities exist;
- * Increased mobility and greater geographical spread of direct investments;
- * Rapid and interlinked reactions to developments in financial and foreign exchange markets, where operations run non-stop, 24 hours a day;
- * The emergence of media networks interconnected with communication networks;
- * Increased, though imperfect, mobility of human resources in the world economy;
- * The acceleration of technological changes leading to an increase in acquisitions and mergers, as well as more intense competition among firms.

Capital flows are not necessarily directed from economically developed countries toward developing ones, but also vice versa. This indicates that some markets once saturated by existing capital become, in this context of political-economic unification, much broader markets with new investment needs. The process of regional unification was conceived and applied by developed states that needed an opening of consumer markets and the reduction of customs and tariff barriers, such as the EU. This also permits a process of capital and company penetration from less economically developed countries, such as Romania, into more developed markets like Western European countries or even the Chinese market.

2.5. Integrating romanian firms into advantageous fiscal circuits

Numerous states across the globe, particularly developing ones, offer fiscal advantages in an effort to attract foreign capital as compensation for the lower attractiveness of their business environments. This would allow large or medium-sized Romanian companies to penetrate markets in Asia or Africa that possess more permissive tax regimes alongside attractive market potential.

These fiscal advantages facilitate the conversion of profits into capital and enable a faster development of Romanian firms in these emerging markets compared to more developed ones. These benefits are often complemented by cheap labor, allowing firms to offer low-cost products both for the local market and for export. Romanian companies can establish subsidiaries in these developing or less-developed countries—which offer stimulative tax systems—and sell products manufactured

in Romania. This process was previously undertaken by Romanian state-owned enterprises before 1990 in North and Central African countries. Over time, products can be manufactured locally within the respective country for export purposes, while paying reduced taxes and duties. In some cases, the host country may also have advantageous customs agreements with other countries in the region.

Furthermore, certain advantages may be provided directly by the Romanian government through an accelerated VAT refund system for exporting firms, aimed at stimulating their entry into foreign markets. State investments may also be granted to firms that pursue expansion strategies in strategic sectors, particularly where market oversaturation or overproduction crises occur.

2.6. Firm presence in international programs providing credibility and stability

Another significant motive for Romanian firms to enter foreign markets involves the facilities offered through mutual aid or reconstruction programs provided by the European Union to certain states or political-geographic regions, especially in North and Central Africa within the Francophone sphere of influence. Countries participating in these reconstruction programs facilitate the access of firms from their domestic markets into these closely supervised emerging economies. Partnering with French firms, in particular, can favor the penetration of Romanian capital and companies into these markets.

EU programs in candidate countries are often accessed through partnerships between EU firms and companies from these candidate states. This represents a prime opportunity for Romanian firms to enter the countries and markets of the Western Balkans and the Republic of Moldova.

Additionally, various organizations and financial institutions, such as the IMF, the World Bank, and the Bank for Reconstruction and Development, provide financial assistance to developing countries to establish regional growth poles that support the global economy as a whole. On the other hand, reconstruction programs are offered to regions or states undergoing restructuring following political regime changes or armed conflicts, such as Syria, Sudan, Ethiopia, and others.

Tracking these funding opportunities and participating in such programs, despite the overwhelming bureaucracy involved, can serve as a very solid solution for international development. All these programs facilitate the creation of favorable and stable new markets, given that these countries are also likely to experience healthy growth rates.

2.7. Enhancing corporate prestige through a global image

Last but not least, a key motivation for internationalization among Romanian firms should be the growth derived from brand image. Expanding into foreign markets bolsters a company's prestige through a global image, particularly as a "brand," but also as a trademark for specific product lines.

Entry into certain markets—and the potential success of a brand within them—can build confidence in the business's value in its home market and eventual third-party markets. International brand recognition accelerates the introduction of new products and leads to increased promotional efficiency.

These results are also reflected in revenue and profits, as the company can correlate brand promotion with a pricing policy that allows for higher prices under conditions of sustained foreign demand.

3. Conclusions

The internationalization of Romanian firms represents a strategic imperative in the context of globalization, confirming the hypothesis that domestic market saturation and external opportunities drive expansion beyond national borders.

Classical models, such as the ****Uppsala model****, explain internationalization as an incremental process based on the accumulation of experiential knowledge—a framework perfectly applicable to Romanian firms transitioning from exporting to direct investment. The literature confirms that both proactive motivations (seeking profitable markets) and reactive ones (domestic

competitive pressures) dominate, with an emphasis on risk diversification and operational stability. For Romania, access to the EU market amplifies these dynamics, transforming SMEs into global actors through partnerships and innovation.

Internationalization ensures sustainable competitive advantages by reducing dependence on a volumetrically limited national market. Romanian firms gain through a superior price-quality ratio and access to EU funds but require government support in market research and digitalization. Competition at both the corporate and sectoral levels mandates internationalization as a vector for recovery, confirming its direct link to survival in volatile environments. At a macro level, the internationalization of Romanian firms strengthens the national economy by diversifying exports and attracting investment. Public policies must prioritize entrepreneurial education and innovative clusters to accelerate this process. In conclusion, internationalization is not an option but an essential condition for survival and prosperity, aligning firm-business interests with an international trajectory.

While the analysis identifies universal motivations, the Romanian context introduces specificities such as the technological gap and bureaucracy. Future research should quantify the impact of Artificial Intelligence on the process post-2025, exploring hybrid expansion models in non-EU markets. Additionally, longitudinal studies on SMEs would validate the long-term effects on national competitiveness.

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