

**ECONOMIC AND SOCIAL COUNCIL OF SLOVENIA.  
SLOVENIA, ROMANIA AND THE CZECH REPUBLIC  
COMPARISON OF INDUSTRIAL TRANSITION MODEL**

**Ljubljana, 7 March 2008**

**INDUSTRIAL TRANSITION MODELS –  
AN ACADEMIC POINT OF VIEW**

**“Economic transformation in Romania. The  
evolution of industrial policy.**

**Analysis of developments before and after EU –  
accession”**

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# **PART ONE**

## **ROMANIA GENERAL ECONOMIC SITUATION**

# ROMANIA'S EXPERIENCE OF TRANSITION TO MARKET ECONOMY AND DEMOCRATIC SYSTEM 1990-2008

- ✓ Romania's economic and social evolving over the period 1990-2008 has been characterized by the interference of two deep reform processes:
  - a) transition to market economy;
  - b) preparing accession and integration into EU.
  
- ✓ The transition is a **complex, long-term process** requiring a certain "gestation" (preparation) which imply the effective mixture between **shock** and **gradual** therapy approaches, excluding unilateral solutions of "either or" and needing "yes and".
  
- ✓ **Efficient integration** of Romania into EU and globalization processes should take into account the level of economic and social development and the need for diminishing the gap and discrepancies as compared with the EU average levels, as well as other specifics of the country.
  
- ✓ **EU support for integration and FDI** play an important role in narrowing the gaps and "leapfrogging" in industrial sectors under the conditions of own continued Romania's effort to increase capacity absorption, improve competitiveness, implement sustainable development programs.
  
- ✓ Privatization and restructuring of industrial sector has required and will require in the future more **consistency, coordination** and **compatibility** in strategic managing and implementation of national development plans, better governance and business climate, common effort of stakeholders.

## ROMANIA

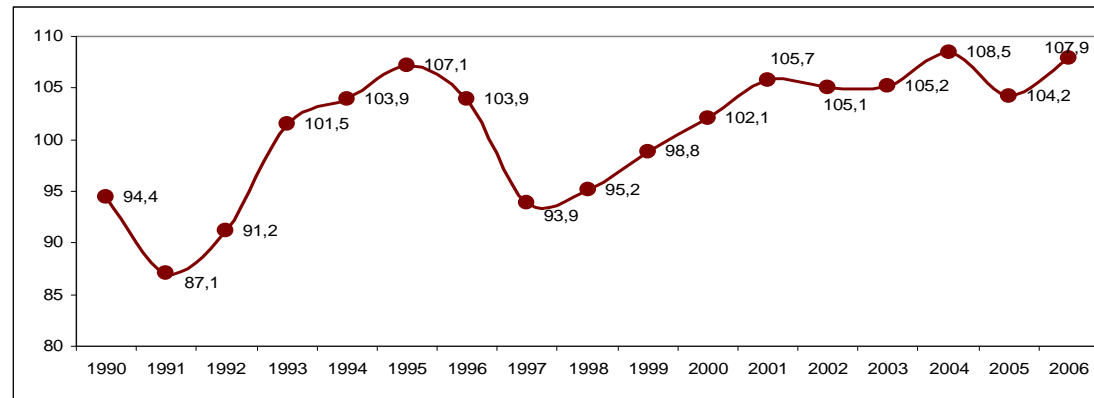
## Industrial sector is still important

**Industry sector** is still an **important engine** of further sustainable economic development of Romania involved in:

- Productivity increase, skills and management capacity and improved production
- Dynamic entrepreneurial business base and value added products and services
- Boosting efficiency of RDI sector
- Sustainable development and social inclusion
- Effective public and private governance
- Improving the regional economies
- Rising the competitiveness and quality of economy and human resources
- “Post industrial development” or “deindustrialization” knowledge-based society, information society, theories do not imply a diminishing role of industrial sector in quantitative and qualitative terms

### Romania. Gross domestic product growth variation

previous year = 100



Note: The data for 2004 and 2005 are final and those for 2006 are semi-final.  
6,1% estimated GDP growth of rate in 2008 as compared to 2007.

### Romania. Weight of private sector in GDP

Years	Percentage share of private sector in GDP
1990	16,4
1994	35,0
2001	68,0
2002	69,4
2003	67,7
2004	71,5
2005	70,1
2006	71,8

Note: The data for 2004 and 2005 are final and those for 2006 are semi-final.

## Romania - 2000-2006 – Main Economic Indicators

	2000	2001	2002	2003	2004	2005	2006
Population (million)	22.4	22.4	21.8	21.7	21.7	21.7	21.7
GDP (lei million)	80377	116769	151475	197565	246372	287186	342418
GDP per capita at PPP (USD)	5974	6496	6974	7521	8417	9056	9869
Real GDP (% change)	2.1	5.7	5.1	5.2	8.4	4.1	7.7
Individual Consumption (% change)	-0.8	6.9	5.3	8.5	14.1	9.8	16.9
Investment (% change)	5.5	10.1	8.2	8.6	10.8	13.0	9.7
Exports (% change)	23.4	12.1	17.5	8.4	13.9	7.6	9.7
Imports (% change)	27.1	18.4	12.0	16.0	22.1	17.2	14.8
CPI Inflation (% change)							
(end of period)	40.7	30.3	17.8	14.1	9.3	8.6	4.9
(average)	45.7	34.5	22.5	15.3	11.9	9.5	6.6
PPI Inflation (% change)							
(end of period)	50.3	32.6	20.1	20.0	16.3	10.4	11.6
(average)	53.4	40.3	24.5	19.6	18.6	12.3	11.4
General Government Balance (% of GDP)	-4.6	-3.3	-2.0	-1.5	-1.5	-1.4	-1.9
Trade balance (USD million)	-1684	-2969	-2613	-4465	-6611	-9873	-14770
Current Account Balance							
(USD million)	-1347	-2349	-1573	-3455	-6333	-10054	-13754
(% of GDP)	-3.6	-5.8	-3.4	-5.8	-8.4	-10.2	-11.3
Leu/USD Exchange Rate (average)	2.2	2.9	3.3	3.3	3.3	2.9	2.8
Domestic Credit (% change)	10.9	34.9	38.7	49.0	33.0	43.7	53.0
Deposit Rate (end of period)	32.4	26.2	18.4	10.8	11.3	6.2	4.8
Average Gross Monthly Salary (% change)	46.9	48.9	27.3	23.6	22.5	17.0	18.9
Unemployment Rate (%)	7.1	6.6	8.4	7.0	6.3	5.9	5.2

Sources: IMF, World Economic Outlook Database, April 2007; IMF, International Financial Statistics, May 2007; EBRD, Transition Report 2006; EBRD, Transition Report Update 2007.

**Success stories**

- New democratic Constitution
- Consensus on pluripartitism and democratic principles
- better performance of single majority party leadership
- more coherent and effective strategies and decision making
- regulatory framework for unemployment benefits, safety net, minimum wage etc.
- law for social dialogue

**Failures and weaknesses**

- weak performances of coalition in power
- lack of coherence in decision making process
- permanent conflicts and disputes within the coalition
- slow activity in Parliament, Government and at the level of local authorities

# Romania      Period 1990-2000      Economic and social policies

## Success stories

- Setting up of legal and institutional framework of the transition to market economy and privatization
  - privatization law no.58 (1991)
  - acceleration of privatization (mass privatization) 1995
  - Europe Agreement of Association (1995)
  - Approval of Strategy for preparing integration into EU
  - strategy for preparing EU accession - 1995
  - FDI law etc. competition law
  - World Bank, IMF, EU, EBRD arrangements and programs (PSAL I etc.)

## Failures and weaknesses

- Insufficient administrative capacity
- government on the basis of emergency ordinance with the power of law
- non effective technological and financial restructuring of SOEs
- hesitant and slow pace of privatization of SOEs
- subsidies for loss making SOEs
- high inflation rates (three and two digits)
- legislative instability and low predictability (large number of new norms, frequent modifications of laws)
- weak performance of judicial system
- unemployment increase (younger, women, and person over 45 years old)
- social polarization increase of persons living under the poverty line



# ROMANIA: PERIOD 2000 - 2007

## POLITICAL DOMAIN

<b>Success stories</b>	<b>Failures and weaknesses</b>
<ul style="list-style-type: none"><li>• starting negotiations for EU accession (2000) – 31 Chapters of Acquis Communitare (closed in 2004);</li><li>• stronger and pragmatic political will for reforms and economic and social restructuring;</li><li>• NATO membership – 2004;</li><li>• EU membership - 2007;</li></ul>	<ul style="list-style-type: none"><li>• slow and difficult negotiation process (agriculture, justice, competition, environment);</li><li>• delays in transposal of EU law</li><li>• missing the 2004 EU enlargement wave;</li><li>• lack of firm, radical political attitude and measures against corruption;</li><li>• Long-lasting disputes and conflicts within the coalition (2004-2008) and ineffective interinstitutional cooperation;</li><li>• Justice affected from inefficiency and lack of credibility;</li></ul>

<b>Success stories</b>	<b>Failures and weaknesses</b>
<ul style="list-style-type: none"><li>• Privatizing large SOEs with foreign strategic investors (chemistry, petrochemistry, oil, natural gas machinery, metal industry, utilities, electricity distribution, banking sector)</li><li>• Sustained GDP growth for eight years</li><li>• Relatively low rate of unemployment</li><li>• Curbing inflation</li><li>• Low budget deficit share in GDP</li><li>• National plans and programmes agreed and articulated with EU programs for 2007-2013 (National Development Plan, National Strategy for RDI, Strategic National Reference Framework)</li><li>• Higher education enrollment increase</li><li>• Increase of women participation rate in education</li><li>• Awareness concerning:<ul style="list-style-type: none"><li>– growth of jobs</li><li>– adaptability of workers and companies</li><li>– investment in human capital</li><li>– employment and innovation pacts and partnerships</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Weak law enforcement, transparency and accountability</li><li>• Low economic competitiveness of industrial goods and services (reduced competitiveness index)</li><li>• Unsatisfactory R&amp;D scientific performance and low demand of private sector for R&amp;D activity</li><li>• Brain drain</li><li>• Labour migration abroad</li><li>• Shortage of labour force on domestic labour market</li><li>• Unemployment higher rate of for young people and persons over 45 years of age</li><li>• Persisting corruption, bribery and uncompliance with the laws</li><li>• Slow pace of social reforms (private pension funds, health care, education, special policies for persons on risk)</li><li>• Sharp dynamic increase of trade balance and current account deficits, of public medium and long term external debt</li></ul>

# **PART TWO**

# **INDUSTRY RESTRUCTURING**

Romania

**Main periods in the evolution of industrial production  
by activities, during the transition period (%)**

Industrial branches	Periods			
	“Before” EU negotiations and membership			
	I. Severe decline 1990-1994		II. Continuing decline and starting recovery 1995-1999	
	Annual rate of growth	1994/ 1990	Annual rate of growth	1999/ 1995
<b>Industry total</b>	<b>-10,8</b>	<b>63,1</b>	<b>-4,5</b>	<b>83,1</b>
<b>1. Mining and quarrying</b>	<b>-4,5</b>	<b>81,3</b>	<b>-6,8</b>	<b>75,3</b>
<b>2. Manufacturing of which:</b>	<b>-11,8</b>	<b>60,5</b>	<b>-3,8</b>	<b>85,6</b>
• Food and beverages	-10,3	64,6	-0,4	98,5
• Textiles and textile products	-13,1	57,1	-13,8	55,2
• Textile, fur and leather wearing apparel	-16,6	85,6	+2,2	109,1
• Leather goods and footwear	-10,0	65,6	-1,0	95,9
• Wood processing (excluding furniture)	-16,7	48,1	-3,4	86,9
• Pulp, paper and cardboard	-11,9	46,6	-5,4	80,0
• Crude oil processing, coal coking and nuclear fuel treatment	-9,5	66,8	-10,2	65,1
• Chemistry and synthetic and artificial fibres	-14,4	53,6	-14,7	52,9
• Rubber and plastics processing	-18,6	43,8	-15,8	52,0
• Metallurgy	-13,3	56,5	-12,5	58,6
• Metallic construction and metal products	-17,5	46,2	-12,2	59,4
• Machinery and equipment	-16,2	49,4	-11,9	60,1
• Electric machinery and appliances	-5,9	78,1	-0,6	97,5
• Medical precision optical instruments, and apparatus, watchmaking	15,2	51,7	+4,2	118,0
• Means of road transport	-11,6	61,0	+16,6	185,4
• Other means of transport	-13,3	56,4	+2,8	118,4
<b>3. Electric and thermal energy, gas and water</b>	<b>-2,6</b>	<b>89,8</b>	<b>-7,1</b>	<b>74,6</b>

Source: Romanian Statistical Yearbooks, 1995 (p.492-493), 2000 (p.414), 2007 (p.657).

Romania

**Main periods in the evolution of industrial production  
by activities, during the transition period (%)**

Industrial branches	Periods			
	Negotiations for integration and “After” EU membership			
	III. Recovery and development 2000-2006		IV. EU membership 2007-2013*	
	Annual rate of growth	2000/2006	Annual rate of growth	2013/2007
<b>Industry total</b>	<b>+5,0</b>	<b>134,1</b>	<b>+5,4</b>	<b>137,2</b>
<b>1. Mining and quarrying</b>	<b>+0,5</b>	<b>103,5</b>	<b>+1,8</b>	<b>111,2</b>
<b>2. Manufacturing of which:</b>	<b>+6,1</b>	<b>142,4</b>	<b>+5,9</b>	<b>141,6</b>
• Food and beverages	+8,4	162,1	+6,3	144,4
• Textiles and textile products	+2,7	117,4	+1,2	107,2
• Textile, fur and leather wearing apparel	-1,5	90,9	+1,2	108,5
• Leather goods and footwear	-0,1	99,2	+2,1	113,4
• Wood processing (excluding furniture)	+8,1	160,2	+6,9	149,9
• Pulp, paper and cardboard	+4,8	132,9	+5,1	134,5
• Crude oil processing, coal coking and nuclear fuel treatment	+4,7	132,1	+5,2	135,2
• Chemistry and synthetic and artificial fibres	+7,7	156,3	+5,9	141,4
• Rubber and plastics processing	+9,0	168,0	+3,8	125,2
• Metallurgy	+4,7	130,2	+4,7	132,1
• Metallic construction and metal products	+2,1	113,1	+2,5	116,1
• Machinery and equipment	+2,1	113,0	+4,1	127,3
• Electric machinery and appliances	+9,2	170,0	+7,2	151,6
• Medical precision optical instruments, and apparatus, watchmaking	+2,1	113,5	+3,2	121,1
• Means of road transport	+15,9	243,1	+7,6	155,0
• Other means of transport	+3,7	124,6	+5,5	137,8
<b>3. Electric and thermal energy, gas and water</b>	<b>-0,8</b>	<b>94,9</b>	<b>+1,3</b>	<b>107,9</b>

\*) estimation of National Commission for Prognoses. Source: Romanian Statistical Yearbooks, 1995 (p.492-493), 2000 (p.414), 2007 (p.657) 13

# ROMANIA      Average number of employees by main activities of industry, in the period 1990-2006

thou. persons

	Years				2006-1990
	1990	1994	2000	2006	
<b>Industry total</b>	3846	2856	2054	1632	-2214
<b>1. Mining and quarrying</b>	267	260	154	95	-172
<b>2. Manufacturing of which:</b>	3156	2426	1660	1409	-1747
• Food and beverages	259	244	187	175	-84
• Textiles and textile products	414	221	102	65	-349
• Textile, fur and leather wearing apparel	258	208	239	247	-11
• Leather goods and footwear	127	98	76	94	-33
• Wood processing (excluding furniture)	94	83	76	73	-21
• Pulp, paper and cardboard	43	28	18	11	-32
• Crude oil processing, coal coking and nuclear fuel treatment	33	36	24	12	-21
• Chemistry and synthetic and artificial fibres	183	143	83	46	-137
• Rubber and plastics processing	86	54	35	38	-48
• Metallurgy	173	165	107	55	-118
• Metallic construction and metal products	189	136	87	89	-100
• Machinery and equipment	603	362	182	97	-506
• Electric machinery and appliances	127	75	50	77	-50
• Radio Tv and communication equipment and apparatus	40	24	10	8	-32
• Medical precision optical instruments, and apparatus, watchmaking	50	26	12	14	-36
• Means of road transport	163	100	79	56	-107
• Other means of transport	184	91	67	56	-128
<b>3. Electric and thermal energy, gas and water</b>	127	170	177	128	+1

**Source:** Romanian Statistical Yearbooks 1995, 2001, 2007.

Deficits of skilled labour in IT&C, machinery and equipment, means of transport, etc.

## ROMANIA JOB CREATION AND REDUCTIONS BY RESTRUCTURING TYPES IN THE PERIOD 2002-2007

**thou.persons**

Restructuring types	Job reduction	Job creation
Business expansion	0	117862
Internal restructuring	82039	902
Bankruptcy/Closure	10204	280
Merger/Acquisition	1400	6040
Relocation	130	530
Other	1170	0
<b>Total</b>	<b>94943</b>	<b>125614</b>

**Source:** Own calculation based on primary data from <http://www.eurofound.europa.eu/omcc/erm/index.php?template=statistics>

Restructuring costs ( C ) – benefits ( B ) relationship: period 1990 – 2000 C > B  
 period 2001 – 2007 C < B  
 period 1990 – 2007 B > C

## Romania Innovation performance gap in comparison with the average EU 27 level in 2007

Indicators	EU	Romania
• Business R&D expenditures	1.17	0.21
• Enterprises receiving public funding for innovation	9.0	2.1
• SMEs innovating in house	21.6	13.4
• Innovating SMEs cooperating with others	9.1	2.8
• Innovation expenditures	2.15	1.52
• ICT expenditure	6.4	8.2
• Employment in high-tech services	3.26	1.43
• Exports of high technology products	16.7	3.9
• Employment in medium-high/high-tech manufacturing	6.63	5.67
• EPO patents per million population	128.0	1.2

**Source:** European Innovation Scoreboard 2007 Innometrics – Pro Inno Europe.

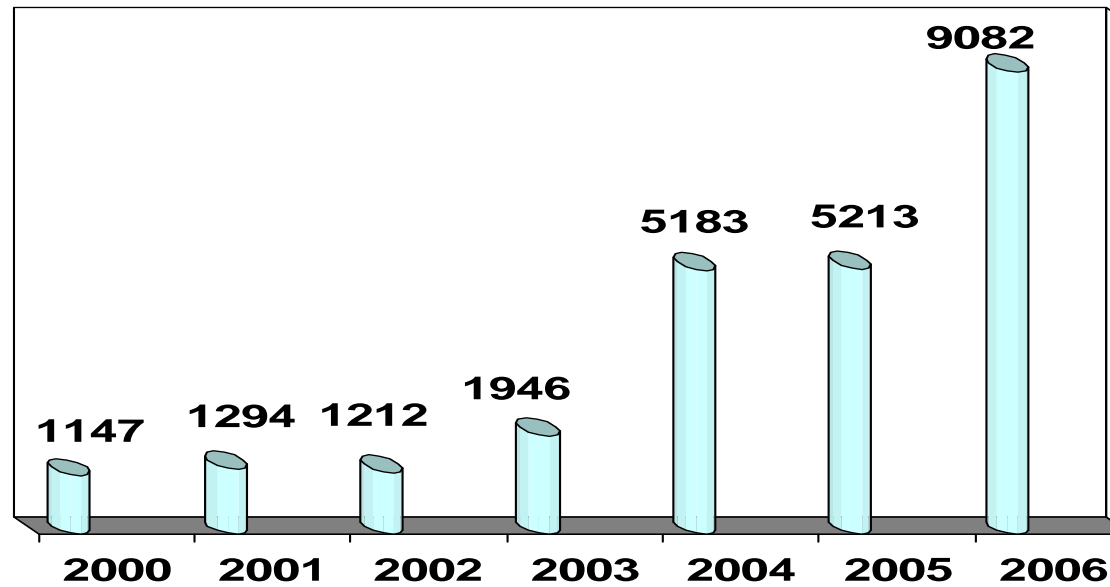


# **PART THREE**

## **FOREIGN DIRECT INVESTMENT**

# ROMANIA

## Annual FDI flows – 2000-2006

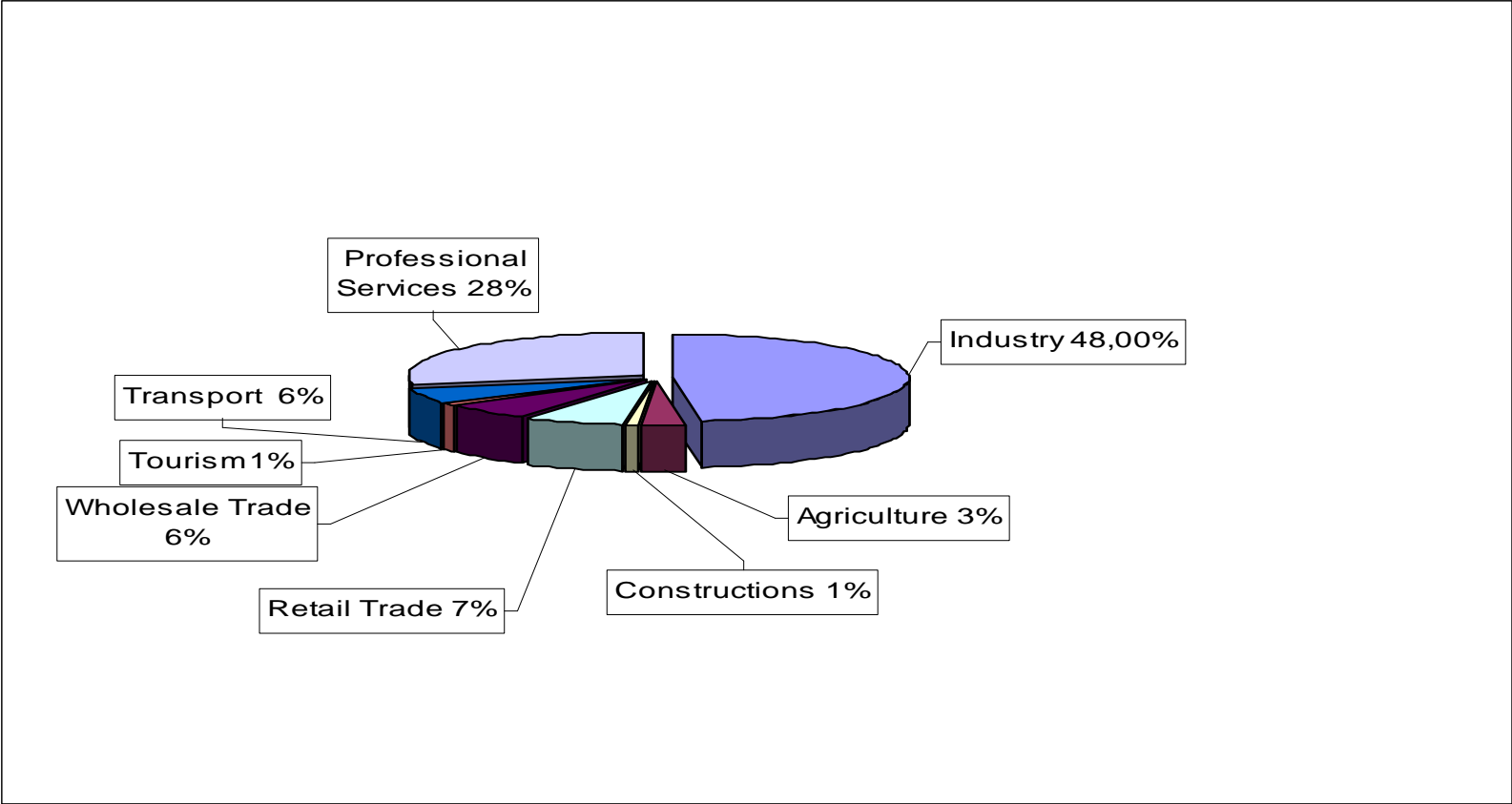


Record value € 9,082 bln, of which:

- Direct participation € 4.098 mln (45.1% of the total)
- Loans granted by the mother company € 3.029 mln (33.3%)
- Reinvested profit € 1,956 mln (21.5%)
- Green filed investment -> job creation
- FDI in privatized SOEs -> job reduction

**Graph 2**

**Structure by domains of the subscribed capital of companies with FDI in the period 1991 – November 2007**



Calculated on the basis of the total capital value in free currency equivalent (USD)

# Romania FDI – 1990-2008

## Strong points

Attractivity (comparative advantages)

- Low wages (285 euro average gross monthly salary), high profitability rate
- Attractive market size
- Location and EU membership
- Substantial increase in the last 3 years about € 20 billion
- 9.3% share of FDI in GDP by 2006 much higher than in the new member countries of EU.

## Weaknesses

- Poor accessibility to and from the rest of Europe
- Poor quality of the country's internal transportation and communication network
- Perception of widespread corruption and difficult business environment
- Multinationals in Romania do not generally sub-contract with local companies because of deficiencies of management, skills, quality of products and technology
- Many multinational prefer to import most of their components using only in small proportions the national supplies
- Bank do not provide sufficient business development support to their industrial client, their exposure to risk is very low
- Hard access to capital, guarantees requires exceed the means of entrepreneurs
- There are few other source of finance and shortage of early stage venture capital.

## Romania Significant\* FDI and their job creation in the period 2004-2006 by industrial activities

Domain of activity	Investment million €	New jobs
1. Auto	245.6	5890
2. Services	293.1	3670
3. Wood processing and furniture	113.2	1700
4. Textiles	18.0	1400
5. Construction materials	58.0	980
6. Chemical products	78.3	475
7. Electrical machinery	18.0	400
8. Food beverage and drinks	18.5	330
9. Metallurgy	2.5	150
10. Light industry	10.0	100
11. Agriculture	23.0	20
<b>TOTAL</b>	<b>839</b>	<b>15115</b>

\*) significant means over € 1 million.

**Source:** own calculation on the basis from ARIS data [http:// www.arisinvest.ro](http://www.arisinvest.ro)

- Most attractive domains for FDI: industry (more than 50%); professional services (26%); trade (13%); transportation (6.4%).
- Less attractive domains for FDI: constructions (1.6%); tourism (1.5%); agriculture (1.2%).

# Romania

## The most significant companies with foreign direct investment in the period 2003-2008

Company	Location	Industrial sector	Investment value Million Euro	Jobs
SELGROS (Germany)	Bucharest and other	Retail trade	250	4800
TENGELMAN (Germany)	Bucharest and other	Retail trade	200	3000
SAINT-GOBAIN (France)	Calarasi	Float glass	120	200
INA SCHAEFFLER (Germany)	Brasov	Fine mechanics	180	1200
CELESTICA (Canada)	Bors-Bihor	Electronics	84	1000
RUWEL AG (Germany)	Cluj-Napoca	Electronics	80	700
SAINT-GOBAIN ISOVER (France)	Ploiesti	Construction materials	35	220
MAKITA (Japan)	Branesti Ilfov	Tools	25	300
RENAULT (France)	Pitesti	Automotive	226	650
EGGER (Austria)	Suceava	Wood processing	210	700
HOLZINDUSTRIE SCHWEIGHOFER (Austria)	Suceava	Wood processing	170	500
BAMESA-ARCELOR (Spain)	Topoloveni	Automotive	30	120
DOMART (China)	Focsani	Metal constructions	1	150
LIBERTY COMODITIES (India)	Calarasi	Metallurgy	10	150
GRAELLS & LLONCH (Spain)	Prejmer Brasov	Industrial parks	300	1000
MARQUARDT SCHALTSYSTEME (Germany)	Sibiu	Automotive	23	500
BEARBULL SAS (France)	Bucharest Iasi	Retail trade	50	200
			<b>1994</b>	<b>15390</b>

Source: www.arisinvest.ro

# **PART FOUR**

## **LESSON LEARNED FROM PRE-ACCESSION EXPERIENCE**

## Romania. Lessons learned from pre-accession experience 1991-2006

- Romania has received from EU about 6.5 billion Euro under 3 pre-accession instruments (PHARE, ISPA, SAPARD) with many objectives among which support for **industrial restructuring, privatization, enhancing private sector** and SME's
- Starting with 2000 negotiations the EU assistance has increased (25% of all investment under the national budget)
- The programs management and implementation contributed to acquire positive experience for the future management of the Structural and Cohesion Funds (2007-2013) – strengthening capacities of national, regional and local level
- **The main lessons learned:**
  - Improving efficiency of **administrative capacity** “Single Action Plan aiming at improving the management systems for the operation of EU Funds in Romania (pre-accession funds and structural instruments) approved by the Government in 2005;
  - **Multi annual planning and programming** (efficient planning correlation of the activities regarding preparation, launching, contracting and project implementation);
  - **Tasks delegation;**
  - **Staff promoting**, stability, training;
  - **Beneficiaries' preparation** (needs identification, projects designing for accessing non-reimbursable financing resources);
  - **Project implementation** (difficulties related to tendering, contracting procedures, cooperation with the public authorities, eligibility and selection criteria, promoting specific legal measures);
  - **Management and control** (procedure manuals and guide, put in place of agencies involved in the management of EU Funds, audit trail, financial control and audit process)
  - **Working in partnership** at regional and national levels (Monitoring Communities for EU financial assistance programmers);
  - **SWOT** and **cost benefit** analyses.



## Romania. Requirements for efficient use of EU Structural Funds for the period 2007-2013

- **National Strategic Reference Framework** (2007-2013) established **objectives and means** of implementation of SOPs, agreed between EU and Romania – good example of multi annual planning and strategic management
- Continued efforts to strengthen the **administrative capacities** at central, regional and local levels
- Improving **coordinating role at the national and regional level**, including the **correlation** of SOPs with the national programmers
- Better setting up of priorities related to SCF operation
- Careful preparation of **major projects** requiring big money, key decisions, extensive studies cost benefit analyses and complex procedures including political consensus among the public authorities involved in the implementation of large projects
- Increased **support for potential beneficiaries in preparing and implementing projects** (IMPACT project for helping project elaboration, consultancy entities)
- Correct and efficient application of **new public procurement legislation**, including **intensive training of beneficiaries**
- To set up and put in place a sound and efficient **financial management** and control system across institutions involved in the SCF implementation
- **Gradual transfer of the staff involved** in implementing the pre-accession funds to post-accessions implementing structures (success full wind-up of pre-accession projects).