

# SOCIO - ECONOMIC DYNAMICS AND FOREIGN INVESTMENTS IN A TRANSITION COUNTRY: THE CASE OF ROMANIA

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## Introduction

The globalization of world economy is achieved through two complementary processes which have each a distinct content and a unique history:

- 1) the increasing interdependence among the participants in the international economic exchanges. This process is generated especially by the expansion of the international goods and services trade. Although it has known a significant growth in the last 3-4 decades it started to become manifest as a factor of economic growth since early 18-th century.
- 2) the speeding - up of the transnationalization process which is specific only to the present end of millennium. Against a background of radical changes of the traditional relations between the national states and enterprises, through their development strategies and way of action some of the enterprises went beyond the national economic barriers and into the «supernational» space, becoming transnational corporations. The main instrument of this process is represented by international investments, that is placing the capital of investors from one state into economic activities or in assets created on the territory of another state. In less than 50 years, foreign investments have known such an increase that the macroeconomic performance of a certain country is more and more frequently judged by the presence of foreign capital. This has become the unanimously accepted sign of healthy and active economy.

But let us not forget the other side of this process : lasting economic growth largely depends on the increase of the investing capacity of a society. To be more accurate, in a word possessing limited resources but continuously facing new and diversified needs, local capital tends to become insufficient even if only in a relative way (in the sense that local objectives are not attractive enough for investment purposes). The evolution of economy, depends therefore, more and more on the national policies of stimulating local investments and attracting foreign ones.

Starting with 1990 the profound political, institutional, social and economic changes in the countries of Central and Eastern Europe show not only the beginning of transition from the communist regime and command economy to a democratic and pluralist political system and a market economy, but also the reintegration of this area in the international investment circuit.

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The financing needs of the six countries in the area (Bulgaria, Hungary, Poland, Romania, Slovakia and the Czech Republic) are determined especially by the measures necessary for the transition to a market economy : macroeconomic stabilization, liberalization of prices, decentralizing foreign trade, supporting balance of payments, privatization and restructuring of enterprises, modernization of the banking and financial system, reform of the education system, the retraining of the labourforce, etc. such measures contribute to the creation of a favourable environment for the private sector and are incentives for the entrepreneurial spirit of investing, with a view to increasing and diversifying the offer of goods and services.

In their paper «Financial Perspective of the Eastern Countries» (1992), Handler and Stankowski from WIFO, Vienna, quoted a series of estimates regarding the needs for financing of the above mentioned countries (1). Even if this estimates vary between 100 and 420 billion dollars yearly until the year 2000, it is evident that the countries from the area are far from covering even the lower level of the estimates, and thus they are determined to have a deliberate policy of opening and encouragement of foreign investments.

Among the multiple forms of international investments, the strongest impact lies with the direct foreign investments. These are more and more perceived in the specialist literature (2) as a transfer of a «package of services - factor (capital, technology, entrepreneurial qualities and managerial aptitudes) to a foreign market. These are combined with the local factor under the control of the foreign investors to produce goods and / or services for that market or for export.

Before presenting the specific evolution of foreign investments in Romania, mention should be made - even if briefly - on the social and economic mutation taking place during the transition period and the main characteristics of the institutional and legal system reform implemented in order to attract and encourage foreign investments.

### **Socio - Economic Dynamic**

Until 1990, Romania' s economy developed within a centralized planning system, based on the over - all presence of state ownership. Unlike other countries in the area, Romania abandoned the reforms of «market socialism» initiate in the 70-ties.

The result of such a conduct produced a command economy, having an inefficient and rigid productive apparatus, totally ignoring the principles of market rules and the comparative advantage although the economy of the country was deeply dependent on the international market. Under such circumstances, Romania developed an important and highly diversified industrial sector, whose production units were over - sized. The most part of the applied technologies were energy con-

suming and environment polluting, while the products were meant for unsophisticated markets (USSR, other socialist countries, the Middle East) to replay in advance the external debt considered to be a danger to «the economic and political independence», even if it never exceeded the level of 5% of the GNP.

On the other hand, agriculture and the services were neglected. The price for this forced industrialization, with tendencies of isolating Romania from the rest of the world, was paid by the low level and poor quality of the population's consumption.

Without having the experience of «market socialism» and without reforming institutions or amend the socialist and legal system, Romania has suddenly passed to an extremely confusing transition period, without clear objectives and without the necessary human resources to design and implement a new system based on the principles of democratic pluralism and on market economy rules.

This statement may be considered extremely tough, but it represents my personal opinion, taking into account the decrease of all the parameters for the functioning of the national economy.

Obviously, the transition has certain costs in all countries, but the level of decrease of the GNP, of the industrial and agricultural production, of investments, of the volume of goods sold on the internal market and for export, the dramatic decrease of the buying power of the population parallel to the rise of inflation and devaluation of the national currency prove the existence of a period lacking a clear strategic objective. The first attempts for a transition strategy (3) have the merit of having identified problems inherited from the past. But the recommendation of a «gradual transition implemented at a rapid pace» (2-3 years at most) proved to be an illusion. At the beginning nobody in Romania or in the countries going through a transition or even from the West, realized that the replacement of an institutional and legal mechanism would take much longer. And let me add an essential element of the transition on which relatively little is said: the change of human mentality and behaviour, the development of managerial aptitudes and entrepreneurial initiative. Without dramatizing, I consider that the human component of transition is the most difficult aspect and having the longest implementation period.

A systematic approach of transition to the market economy (4) was debated and passed through Parliament only in 1993, thus explaining why the macroeconomic stabilization for Romania appeared only 5 years after the revolution (1994). A series of instruments and institutions of the market economy have not yet been taken into discussion (tax on the global income, rules of competition, bankruptcy of non profitable enterprises) or are in an early stage of implementation (the Stock - Exchange and the capital market, the mass privatization of enterprises).

The main changes achieved since the beginning of the transition to a market economy can be structured in the following manner :

- 1) macroeconomic stabilization
- 2) microeconomic liberalization
- 3) reform of property

1) *Macroeconomic stability* was especially reached by fiscal and monetary means. These took place alongside the gradual liberalization of prices (started in November 1990 and ended in May 1993) and almost the total banishing of subsidies for production (except for mining and agriculture) and for consumption (except for heating). The following taxes have been reintroduced : tax on profit, tax on salaries and tax on turnover and starting with July 1993 VAT was put into force. All these taxes form a sound basis for the state budget incomes. Since 1994 local taxes and fees have been introduced and starting with 1995 excise taxes on luxury products and spirits came into effect correlated with bound customs duties, as a result of multilateral GATT negotiations and stipulated in the Marrakech Agreement. In the near future the introduction of the tax on the personal incomes is expected to complete the fiscal reform in Romania.

The large section formed by subsidies were eliminated from budget expenditure. But social assistance funds are on a continuous use (about one third) as well as social protection offered to unemployed (about 10-11% rate of unemployment with a slight downward tendency in the last months). As the financial performance of enterprises was decreasing during the recession, the basis for taxes was reduced inevitably producing deficits. Average budget deficits (-3.5% in 1994 up to -6.9% of GDP in 1992) are normally financed through loans from the banking sector and through the issue of the state securities, without involving therefore the financing of the National Bank.

The main factor of the programs of macroeconomic stability was monetary policy. Although interests were liberalized in 1991, they remained real - negative until 1994 against an annual rate of inflation which increased from 5.1% in 1990 to 174.5% in 1991, 210.9% in 1992 and 256.1% in 1993 (in 1994 it fell under 62%, and a rate of 30% is forecast for 1995). Starting with 1994 due to a serious increase of the interests offered by the commercial banks, a real - positive interest came into existence. The measure had several effects : on the one hand it slowed down an excessive increase of expenses, tempered inflation and developed confidence in the national currency but on the other hand it limited production and investments and slowed down free enterprise. In parallel with the slowing down of inflation, interests are gradually reduced so that starting with 1-st of August 1995 the reference interest rate of the National Bank of Romania reached 35% and there are real prospects to have less expensive credit in Romania.

In November 1991, internal convertibility of the lei, for current accounts was introduced but the exchange rate was left to float freely on the currency market

only in April 1994. Starting with the same date all official commercial transactions (including oil imports) were effected through currency bidding to which Romanian and foreign enterprises and commercial banks have free access. A complete inter-bank currency market, with direct transactions between the commercial banks become operational in July 1994. The use of payment instruments reintroduced for banks' customers on August, 1, 1995, still remains unsatisfactory.

The mix between fiscal policy and the rate of exchange combined also with an improvement of the commercial balance led to a gradual decrease of the current account deficit from US dollars 3.254 million (9.3 % of GDP) in 1990 to US dollars 1.564 million (7.9% of GDP) in 1992 and to only US dollars 428 million (1.8 of GDP) in 1994.

The policy of incomes was less consistent. In 1990-1991 a real boom of incomes was registered under the pressure of the trade unions. In 1992 an attempt was made to limit the increase of salaries by introducing the tax on the salary fund, but its effect was reduced since the percentage of salary increase was limited to the rate of inflation. The circle of inflation was broken only in 1994, by reestablishing the interdependence between salary and productivity, that is the increase of salary is conditioned by the increase of labour productivity.

2) *Microeconomic liberalization* started from the very first months of 1990 by the adoption of laws to encourage private initiative and direct foreign investments, which stipulates the transformation of state enterprises into commercial companies meeting privatization requirements and «regie autonomes» (in the strategic sectors of the national economy). The monopoly of the state and centralized planning were abolished and the role of the economic ministers reduced. An important number of laws adopted after 1992 created the legal framework for the setting up and functioning of commercial companies, the state guarantees their nondiscriminatory treatment, irrespective their legal status or the origin of their invested capital.

Between 1990-1993 the liberalization of prices was achieved gradually. This option was motivated by the poor level of the population consumption at the start of the transition period as well as the low purchasing power of incomes from salaries (in 1990 we can not talk about a significant level of the savings of the population). On the other hand the way the gradual liberalization of prices was handled greatly contributed to the high rate of inflation during the whole 1991-1993 period.

The liberalization of foreign trade was sudden, the first part of 1990 being characterized by a total disruption of import - export operation. The initial customs tariff introduced in 1991 was replaced in 1993 by a modern instrument (the H.S.) bound as a result of the GATT multilateral negotiations. Customs duties are similar to those prevailing in Europe and form the main instrument of Romania's commercial policy. A small number of limitations for export were maintained for prod-

ucts «sensitive» to internal consumption (oil, gas, timber, some medical substances, raw material, etc.).

Romania's Association Agreement to the European Union (E.U.) improves the prospects of Romanian industrial products for export to the E.U. countries through the elimination of customs duties for over 90% of these products, the remaining duties are to be liberalized in the next 4-5 years. In its turn, Romania agreed to gradually eliminate customs duties for its imports from these countries: with 20% in 1996 and fully by 2002. It is also to be mentioned the fact that since the end of 1993 USA granted Romania the most favored nation treatment.

Another component of the liberalization of the economic climate is the reform of the banking system started in 1990 by the organization of the banking system into two sectors : a central, autonomous and independent bank and a network of commercial banks with state and private capital belonging to Romanians or foreigners. On the 1-st of September 1995 there were 27 commercial banks in operation in Romania. The legal framework for the capital market was adopted. This encouraged the setting up of the first companies for financial negotiations (investment funds) and the issue of shares for take - over bids. The Commission for negotiable instruments was set up in 1994 and the first Stock Exchange in Romania was officially opened in Bucharest, in June 1995. Its operations are due to start next year. One can notice that the institutions of the capital - bond - market and those of the labour force market still operate modestly although the legal framework is created. If we take into consideration the part played by the private sector in the Romanian economy (35% in GDP 1994) and especially in industry (9% in 1994) we can understand the slow start of the above institutions.

3) *The reform of property* had a slow evolution according to the various sector and branches of Romanian economy which makes the private sector contribution to GDP to rise slowly, for some even unconvincingly slowly, from 16.4% in 1990 to only 35% in 1994. In agriculture even from 1991, a part of the land was given back to the former owners or their legal heirs. Private property became dominant in this sector, but the present stage of property division (the average size of Romanian agricultural exploitation is under 1.2 ha) cannot ensure a spectacular increase of output for agricultural production. However, the private sector covers 87.5% of the Romanian agricultural production.

In the other branches the private sector mainly appeared through the setting up of new commercial companies with private capital, both Romanian and foreign, and not by the privatization of state owned companies.

Indeed, starting with December 1990 when Law No. 54 for free initiative started to be effective, there were over 463 thousand private commercial companies registered with the Commercial Register, out of which over 41 thousand with foreign participation in their capital. If we also take into consideration the natural

persons with declared commercial activity, the number of private entrepreneurs exceeds half a million and the dynamics of registrations is far from slowing down.

The Law of privatization was adopted as early as 1991, but only 1000 small and medium sized enterprises were privatized on its basis, from among the 6.2 thousand likely to be privatized by the Government. Under these conditions in 1995 the Parliament passed a law of accelerating the process of privatization. In application started with the distribution of the personal privatization vouchers to all Romanian citizens at age, until the end of September 1995. The ownership certificates and vouchers are to be transformed into shares of the about 3000 commercial companies included on the official privatization list, approved by the Government. One can freely choose a company until the end of 1995 where to place its option, the acceptance of options being made up to level of 60% of the company's equity. The rest of 40% (or more) will be immediately sold so that state property should totally be transferred to private shareholders. Incentives for foreign and Romanian investors are being elaborated to stimulate them to buy the shares left after the transformation of the certificates and vouchers into shares.

Despite doubts expressed by the media, the speeding up of the privatization program is certainly feasible. What might be discussed is the relatively small contribution to the capital which will take place through this method of privatization, but the essential thing is that the end of state ownership over commercial companies finally becomes evident.

Some important economic sectors further recorded favourable performance in the first half of 1995, thereby illustrating the ongoing recovery initiated in 1994. The achievements were recorded in terms of increase in output (+9,2%) and labor productivity in industry (+12.8%) crops, expansion of domestic trade (+26.8%) and foreign trade (+31.8%), curbing down of inflation and unemployment, continuing increase of the number of economic operators registered with private capital and a rise by some 10% of real wage and salary as compared to the same period of the precedent year (5).

### **The legal framework for foreign investments**

In the period between the two world wars Romania was open to direct foreign investments as any other democratic country as a market economy. The nationalization of the main production means in 1948 brutally put an end to the foreign capital in the economy of the country.

Under the conditions of the socialist economy (6) the legal framework to set up Joint Ventures in Romania was created only in 1971/1972 and completed in 1975 in order to allow the participation of Romanian enterprises in joint - ventures abroad. Limiting the participation of foreign capital (to at most 49% of the equity) the bureaucratic regime of obtaining the necessary approvals, the lack of explicit finan-

cial facilities as well as the impossibility of choosing your business partner of the sector / branch of activity to invest in, brought about only minor effects of these laws.

At present the laws passed through Parliament and the provisions to implement them places Romania closer to a normal legal and institutional framework for foreign investments, the forms of setting up and functioning of companies including those with partial or total foreign capital been transparent.

Without going into details the main laws directly related to foreign investments are :

- the Decree - Law No. 96/1990 which stipulates the right of foreign legal or natural persons to own totally or partially the capital of an enterprise having its headquarters in Romania. For the first time after the war Romanian economic policy stipulated fiscal facilities (two years tax holiday on profit), and the procedures to analyze and approve the foreign investments was largely simplified in comparison with the practices of the communist regime ;
- Law No. 15/1990 stipulating the transformation of state enterprises into commercial companies and «regies autonomes» ;
- Law No. 26/1990 on Commercial Register ;
- Company Law No. 31/1990 - Romanian Commercial Code adopted in 1887 was revised as required and supplemented thus providing the legal framework for the setting up and functioning of commercial companies in Romania;
- Foreign Investment Law No. 35/1991 was completed and modified by Law No. 57/1993. They define the concept of foreign investment and its forms, it specifies the qualification procedures, the registration as well as the fiscal or other type of facilities granted to foreign investors.

The legislation in place specifically permits foreign investors to engage in business activities in any of the following ways :

- creation of new commercial enterprises, subsidiaries or branches, either wholly - owned, or in partnership with Romanian legal persons (i.e. corporations, co-operatives or partnerships) or natural persons (i.e. individuals);
- participation in the increase of the registered capital of an existing commercial company or the acquisition of shares, bonds or other securities of such companies;
- acquisition of concessions, leases or agreements to manage economic activities, public services, or production sub-units belonging to commercial companies or state-owned autonomous enterprises;
- acquisition of ownership right over non-residential real estate improvements, the



exception being land (which is available to joint - ventures);

- acquisition of industrial and other intellectual property rights;
- conclusion of exploration and production-sharing agreements related to the development of natural resources. The capital of a foreign investor can take many forms including : foreign currency, equipment, means of transport, spare parts and other goods, services, intellectual property rights, know-how and management expertise and the proceeds and profits from other business activities carried out in Romania.

Investment is permitted in virtually all economic sectors, including natural resources, agriculture, manufacturing, telecommunications, construction, scientific research, trade, tourism, banking, and insurance. Restrictions exist on investments which would :

- not comply with environmental requirements;
- affect Romania's national security and defense interest, or
- harm the public order, public health or good morals .

By specific regulations, in the insurance sector, a foreign investor must have a Romanian partner.

Certain areas, including infrastructure (railways and postal services), defense (arms and ammunition) are reserved for state-owned enterprises. According to Privatization Law No. 58/1991, these areas, covered by «regie autonomes» or autonomous administrations, will be gradually narrowed and opened to competition.

The legislation in force specifically guarantees foreign investments in Romania against nationalization, exportation, confiscation, requisition or any other measures of similar effect except when taken in the public interest as well as ways of compensation.

### **Tax incentives for foreign investment**

Romania's foreign investment legislation includes a number of important incentives for foreign investors. Capital equipment imported by foreign investors as their contribution to a venture is exempt from customs duty. Similarly, imported supplies needed for operating the investment are exempt for a period of two year from the date a project is commissioned or the activity commences.

There is a general exemption from profit tax for foreign investments, provided that the foreign investor's paid-in contribution represents a minimum of 30% of the social capital of the commercial company, but not less than US dollars 10.000. If these conditions are met, the tax exemption legislation includes :

- a five year tax holiday for agricultural, industrial, or construction enterprises and for foreign investments in the exploration and exploitation of natural resources;
- a three year tax holiday in communications and transportation, and
- a two year tax holiday for trade, tourism, banking, insurance, and other services.

Law No. 57/1993 stipulate that all profits made by a foreign investor in Romania may be transferred abroad. The profit in lei can be exchanged on the free currency market into any other currency at the exchange rate of the day. The repatriation of profits is subject to a transfer tax of 10%.

Effective from January, 1-st. 1995 (Government Decision No. 70/1994) there is a tax reduction including : 50% cut if profits are reinvested in Romania and a 25% cut if investments are in agriculture.

According to Law No. 71/1994, for important investments (over 50 million US dollars) there are some special incentives as far as taxation is concerned but these incentives are granted only to those investors who engage themselves at least 60% of their production and to export at least half of the production.

Romanian legislation offer foreign investors the national treatment in regard with commercial and banking operations and the hiring system. Joint ventures can employ top management from abroad and open bank accounts with foreign banks.

To conclude, the legal framework for foreign investments in Romania is similar to, and in certain respects even more attractive, than the conditions offered to foreign investors by the states in the area.

### **Specific aspects of direct foreign investments in Romania**

During the last five years, foreign investments in Romania recorded a growing tendency. After some first years of prudent approach, materialized in investments of yearly 100-150 million of US dollars in 1990 and in 1991, an increase by 100% of inputs in foreign capital occurred in 1992 (270 million of US dollars) and 1993 (227 million of US dollars). The relative step back in 1993 is due to the social, political and economic tensed situation in Romania, as a result of the too late assumed radical measures of the reform and of the replacement of the governmental team.

As compared to the previous years, 1994 registered a spectacular increase of the non-residents in Romania (8) - the level registered by the Romanian Development Agency (RDA) being of over 510 million of US dollars. In 1994 the net investment flows were four times higher than those a year before (+390%). Data published by the National Commission of Statistics and the RDA for the first half of 1995 show that this trend is continuing.

This recovery was produced by various internal and external factors out of which the following are more important :

- the reduction of the monthly average inflation rate from 12.1% in 1993 to 4.1% in 1994;
- the relative stabilization of the exchange rate between lei and hard currencies, produced in the second half of 1994;
- the increase of the currency reserves to about 2 billion US dollars ;
- the gradually reduction of the current account deficit ;
- the freezing of the GDP and the first positive rates in the industrial production growth;
- the putting into force of the Association Agreement to the European Union;
- the mutual granting of the MFN treatment in the trade relation with the USA.

At the beginning of the period taken into consideration, small investments were prevailing, then gradually the weight of investors grew and now investments of over 1 million US dollars represent 68.9% of the total amount registered for the period 1990-1994, while investments over 100 thousand of US dollars represent 85% of the same total. At present, investments under 10 thousand US dollars are not registered anymore, as such participation to the capital are considered irrelevant.

During the last 18-20 months time the following companies invested important amounts in Romanian productive enterprises : Kraft Jacobs Suchard, DAEWOO, Siemens, Bonygue, ABB, Alcatel, Colgate-Palmolive, Shell, Amoco Enterprise Oil, Coca - Cola, Pepsi-Cola etc.

According to RDA estimates, the major investments of over 1 million US dollars are oriented preferentially to productive activities : 36.5% in the foodstuffs industry, 22% in the light industry, 20.5% in agriculture, 11.3% in electronics, 7.6% in telecommunications. A statistical Appendix to the present shows the repartition on branches of activities of all non-residential investments made in Romania during 1990-1994.

This repartition of the capital invested in Romania proves that foreign investors have identified and turned into account some peculiarities of the Romanian economy (9) :

- a large sized market for this area, having 23 million inhabitants, a country where production for consumption was neglected ;
- a market having important material resources and a considerable productive infrastructure, needing to be retechnologized ;
- a market having well trained labour force, eager and able to rapidly integrate the technological progress, being at the same time cheap enough.

Among the important direct foreign investments one should take into consideration the participation to the establishment or increasing of bank capital and one example is Sita Investment A.G. Switzerland having invested in Dacia Felix Bank, a E.B.R.D. investment in «Ion Tiriac» Bank, Bucharest Bank, Alpha Laval etc. By the mid of 1995 in Romania were acting : 8 banks with private Romanian and foreign capital, one bank with foreign capital, one bank with state owned foreign capital, 4 banks with state and private capital belonging to Romanians and foreigners and 7 branches of foreign banks (10).

From the point of view of the territorial repartition, the commercial companies with full foreign capital or with foreign participation are distributed in all the 40 countries of the country. The countries with a stronger industrial infrastructure are preferred by foreign investors (Dolj, Timis, Bihor, Cluj, Brasov) while Bucharest concentrates almost 50% of the foreign investments.

As to the origin of the foreign capital invested in Romania, on the first place is Western Europe (53%) followed by Asia (30%), North America (8%), Middle East (7%), the rest of the world covering 2%. In the statistical Appendix to the present there is a list of the first 15 countries out of the 147 who have invested in Romania during the period March 1990 to the end of 1994.

The total volume of the invested capital is of 1.27 billion of US dollars. It is relevant that out of the total investments of 1994 only 52.7% represents new investments, the rest of 47.3% representing increases of the capital done mainly through the re-investing of the profits. This encouraging fact is produced under the conditions when the full free transfer of the profit is guaranteed. It confirms, at the same time, the economic relaunching and the fact that foreign investors present already on the Romanian market chose to enlarge their participation or to identify new market segments to a better turning into account of their own profits.

Nevertheless, when foreign investments to Romania area are compared to those made in other countries in transition, the first ones are 2-3 times smaller, sometimes even smaller.

A lot of explanations and justifications can be found. Out of them the following are to be underlined :

- during the analyzed period, important steps towards the market economy have been made but its mechanisms only start to function alongside with errors and hesitation inherent to any beginning;
- the market for industrial products continues to be dominated by state owned enterprises. Such a reality does not represent an appealing business environment for foreign investors. A major change is expected by the mid of 1996 when mass privatization is to be achieved, in accordance with the provisions of the Law for accelerating the privatization. As an effect of dictatorship decision, Romania

succeeded in 1989 to pay back its foreign debt. Under such conditions, foreign investors were not motivated to come to Romania to protect their interests or to get back their investments and thus it is easy to understand why they preferred other countries incumbering the same risk of investments. When taking into consideration the brutality of the change in Romania, the risk was even lower;

- the trade-union movements generated by the diminishing of the buying power of the salaries as well as the over-sized political disputes, incorrectly presented sometimes by the mass media during the first years of transition, induced a false image of Romania for most of the potential investors. The positive evolution during the two last years ate too often ignored, the stereotype considering Romania as a high risk country are frequently manipulated, although reality is opposite;
- under a slowing down of privatization, the governmental Agency nominated to promote foreign investment policy, gradually lost its characteristics of «one door / step shopping agency» for foreign investors. This Agency is not anymore «promoting» but «approving» investments thus becoming as any other minister or governmental body an administrative institution, feeding bureaucracy instead of simplifying things.

It is obvious that there are also other reasons for this relative modest input of foreign investments in the Romanian economy, and by identifying them the first step to abolish them is made.

What seems more relevant is the fact that starting with 1994 the important investors do not hesitate anymore to look at this market which appears to be appealing for profit.

The relaunching of the Romanian economy, the continuous improvements of the institutional and legal framework with a view to the establishing of a market economy, as well as the privatization of another 3000 enterprises offer to the foreign investors more and more guarantees and opportunities to penetrate the Romanian market.

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**ROMANIA : SELECTED ECONOMIC INDICATORS (1989-1994)**

	1989	1990	1991	1992	1993	1994
Nominal GDP (billion lei, current prices)	800,0	857,9	2.203,9	6.083,5	19.737,5	48.338
GDP deflator (% annual)	-	113,6	294,9	314,9	311,7	236,7
Annual rate of real DGP (percentage)	-	-5,6	-12,1	-13,8	+1,0	+3,5
Share of the private sector (%)	12,8	16,4	23,6	26,0	32,0	35,0
- in GDP			6,9	9,1		
- in industry			84,5	87,5		
- in agricultur			28,1	44,9	55,1	68,8
- in domestic retail sales			26,1	26,0	42,7	43,3
- in services delivered to population	-	0,3	16,0	30,5	27,5	30,5
- in foreign trade						
Annual consumer price index (previous year = 100%)	100,1	105,1	274,5	310,9	390,3	161,7
Consumer price index (1980=100%)	135,7	142,6	391,4	1.216,9	4.749,6	7.680,1
Industrial production price index (previous year = 100%)	100,0	123,5	307,6	280,3	244,0	240,5
Average annual inflation rate(%)						
Foreign trade:						
- Exports (fob, million USD)	10.487	5.775	4.266	4.363	4.892	5.998
(as percentage of GDP)	21,0	15,5	15,5	23,0	19,1	21,2
- Imports (fob, million USD)	8.438	9.202	5.372	5.784	6.020	6.328
(as percentage of GDP)	16,9	24,7	19,5	30,4	23,8	20,6
- Trade balance (million USD)	+2.049	-	-1.106	-1.421	-1.128	-330
- Coverage of imports through exports (%)	124,3	3.427 62,8	79,4	75,4	81,3	94,8
Current account balance (million USD)	+2.514	-	-1.012	2.354	3.334	4.500
(as percentage of GDP)	+6,1	-3.254 -9,3	-3,7	-7,9	-4,7	-1,5

Romania's external debt 17420 (million USD)	41.121	1.121	2.354	3.334		4.500
- as percentage of GDP	0,4	0,6	4,1	11,9	13,4	16,9
- as percentage of exports of goods and services	1,5	3,22	2,74	6,9	58,6	64,5
Exchange rate(Romanian lei/USD)						
- annual average	14,32	24,43	76,39	307,96	760,05	1.677,7
- by end of the year	14,44	34,71	189	460	1.276	8 1.767
Romania's population by end of year (thou)	23.152	23.19	22.761	22.732	22.750	22.721
Total employment	10.946	2	10.786	10.458	10.062	9.688
(thousand persons) of which:	7.997	10.84	7.390	6.526	6.475	5.900
- non-agricultural employees		0	7.111		5.637	4.800
- state sector		8.102	264		838	1.100
- private sector	-		338	929	1.165	1.224
Unemployment(thousand persons)						
- end of year	-		3,0	8,4	10,2	10,9
Unemployment rate by end of the year (%)		-				
Average number of retired people (thou)	2.233	2.495	2.943	3.126	3.177	3.439
Average pension (lei)	1.420	1.575	3.340	8.724	26.900	61.370
Net average monthly wage earnings (lei)	2.824	3.381	7.460	20.140	59.717	136.931
Annual rate of net average nominal wage (%)	4,0	10,5	121,3	169,4	202,9	129,3
Annual rate of real wage earnings (%)	3,0	5,1	-19,4	-13,3	-14,9	+0,9
Purchasing power of wage earnings (1990=100%)	-	100,0	80,6	69,9	59,5	60,0
Economic operators situation:						
- autonomus bodies (number)			692	859	940	1.014
- commercial companies			83.709	207.787	317.192	443.213
(number) of which:						
- state-owned			7.432	7.885	8.397	6.951
- private capital			76.277	199.902	308.795	434.041
- joint ventures			8.031	21.056	29.134	43.104
- private entrepreneurs			154.472	196.306	215.345	226.135



**DIRECT FOREIGN INVESTMENTS  
IN THE ROMANIAN ECONOMY (1990-1994)**

Year	Total Capital		Number of investors	
	million US\$	% of total	absolute	% of total
1990	107,7	8,5	1,529	3,5
1991	156,3	12,3	6,368	14,8
1992	269,1	21,1	12,780	29,7
1993	227,4	17,9	8,457	19,6
1994	511,3	40,2	13,966	100,0
<b>TOTAL</b>	<b>1.271,8</b>	<b>100,0</b>	<b>43,100</b>	<b>100,0</b>

Source: Romanian Investment Review, Vol. 3, No. 1/1994, Bucharest Monthly  
Statistical Bulletin, No. 12/1994, Bucharest

**DIRECT FOREIGN INVESTMENTS IN ROMANIA  
BY ORIGIN COUNTRY AT THE END OF 1994**

CRT.	COUNTRY	NUMBER OF INVESTORS	TOTAL	CAPITAL
			million USD	% of total
1	Korea	4215	8,0	12,4
2	U.S.A.	2.043	112,1	8,8
3	Germany	4.803	107,7	8,5
4	France	1.446	105,7	8,3
5	Italy	4.730	105,6	8,3
6	Netherlands	611	79,6	6,3
7	United Kingdom	624	70,8	5,6
8	Canada	501	63,1	5,0
9	Luxemburg	68	62,5	4,9
10	Turkey	3.658	56,8	4,5
11	Switzerland	565	50,1	3,9
12	Spain	229	34,1	2,7
13	Greece	975	33,7	2,6
14	Syria	3.609	30,8	2,4
15	Austria	975	28,2	2,2
	Others	17.905	173,0	13,6
	<b>TOTAL</b>	<b>43.100</b>	<b>1.271,8</b>	<b>100,0</b>

Source: Romanian Development Agency, Bucharest

**DIRECT INVESTMENTS BY BRANCHES OF THE ROMANIAN ECONOMY**  
(at the end of 1994)

Branch	UCD	% of total
Total investment of which in:	1.115.004	100,0
- Agriculture	37.300	3,2
- Foodstuffs	149.100	12,9
- Industry	317.500	27,5
- Civil engineering	15.700	1,4
- Transportation	77.000	6,7
- Infrastructure	28.300	2,5
- Telecommunications	11.900	1,0
- Tourism	87.430	7,6
- Banking-insurance	39.270	3,4
- Domestic trade	115.230	13,4
- Foreign trade	58.300	5,0
- Other services	41.810	3,6
- Other branches	136.170	11,8

Source: Romanian Development Agency, Bucharest

**DIRECT FOREIGN INVESTMENTS BY SIZE OF SUBSCRIBED CAPITAL**  
**AT THE END OF 1994**

Size (US\$)	Number	Total (US\$)	% of total
up to 1.000	16.874	5.090,84	0,5
1.001-10.000	11.974	66.033,20	5,7
10.001-100.000	4.495	13.640,43	9,8
100.001-1 million	572	174.282,37	15,1
over 1 million			
<b>TOTAL</b>	<b>34.050</b>	<b>1.155.003,91</b>	<b>100,0</b>

Source: Romanian Development Agency, Bucharest