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***In Russian, East European,
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Romanian-Hungarian Economic Cooperation and Joint Ventures in Post-Ceaușescu Romania

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About this series

The *Donald W. Treadgold Papers* publication series was created to honor a great teacher and great scholar. Donald W. Treadgold was professor of history and international studies at the University of Washington from 1949 to 1993. During that time, he wrote seven books, one of which — *Twentieth Century Russia* — went into eight editions. He was twice editor of *Slavic Review*, the organ of the American Association for the Advancement of Slavic Studies, and received the AAASS Award for Distinguished Contributions to Slavic Studies, as well as the AAASS Award for Distinguished Service. Professor Treadgold molded several generations of Russian historians and contributed enormously to the field of Russian history. He was, in other ways as well, an inspiration to all who knew him.

The *Treadgold Papers* series was created in 1993 on the occasion of Professor Treadgold's retirement, on the initiative of Professor Daniel Waugh. Professor Treadgold passed away in December 1994. The series is dedicated to the memory of a great man, publishing papers in those areas which were close to his heart.

Sabrina P. Ramet
Editor

About the author of this issue

Erica Agiewich received a BA in Development Studies from UC Berkeley in 1992, and graduated from the University of Washington with an MA in International Studies in 1994. She received a Fulbright Research scholarship to Romania in 1996, and spent seven months as a visiting researcher and guest lecturer at the Faculty of European Studies at Babeş-Bolyai University in Cluj, Romania. She remained in Romania on a Fawcett Fellowship at the US Embassy in Bucharest until November 1997.

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I would like to thank all the interviewees throughout Romania who gave their time and candor to my project. I also would like to thank Professors Waugh, Felak and Augerot for supporting me in my academic endeavors and Fulbright research project. I dedicate the article to my father.

Erica Agiewich

As the institutional pillars of the Communist bloc collapsed one after another in the late 1980s and early 1990s, the governing economic regime, the Council for Mutual Economic Assistance (CMEA), was among them. The CMEA, which had controlled inter-bloc trade for decades, decreed itself out of existence on 1 January 1991. Since then, bilateral trade among countries in the region has remained a fraction of what it had been in the CMEA years.

Why does inter-regional trade remain so low, especially between the Central European and Balkan countries? First, since 1991, trade has been conducted in hard currency rather than transferable rubles and the whole region faces hard currency shortages. Second, the countries desperately desire to reorient their trade to the wealthier west, with its large consumer and industrial markets. Third, it's a question of comparative advantage; many of the former Communist countries built identical economies based on heavy industry and agriculture. Now, few of the countries have attained the capacity to manufacture consumer goods to satisfy domestic demand, forcing them to run trade deficits with non-bloc countries. Finally, the political value of disassociating themselves and their countries from their Communist past puts pressure on politicians to focus their energy on building political and economic relations with non-bloc countries.

Despite these constraints, there are some unacknowledged benefits to inter-regional trade which are easily overlooked in the rush to put the Communist era and all its institutional trappings in the past. Due to the complicated history of Transylvania, Romanian-Hungarian bilateral trade and Hungarian investment in Romania are examples of how inter-regional trade and economic cooperation may be important not only in economic terms, but also may play a potentially positive and negative role in post-Communist social and political development. From the sixteenth century on, Transylvania was a province of the Habsburg empire in which the Hungarian minority was the landed upper class and the Romanian majority their peasants. The Treaty of Trianon at the end of World War I awarded Transylvania to Romania. A leveling process then began in which the Hungarian aristocracy lost much of its economic and political power. The Communist regime intensified the Hungarian disenfranchisement process; by the end of the Communist period, everyone in Romania was "equally poor."

Presently Hungary is the most politically stable and economically well-off of Romania's neighbors and could provide Romania, and especially,

Romania's ethnic Hungarians, with an opportunity to diversify its trading partners and increase its economic activities. Besides the financial benefits, cross-border cooperation could help to soothe tense ethnic and diplomatic relations between Hungarians and Romanians. If one assumes that many social ills are born out of economic problems and can be solved — at least in part — by economic growth, increased economic cooperation may assist rapprochement between traditional ethnic enemies and heighten regional political stability.

Without a doubt, the conditions for discrimination exist in Romania. Ceaușescu's nationalist communist regime blatantly discriminated against Hungarians. At the end of the 1980s, ethnic Romanians dominated the country's political and economic apparatuses. After the revolution in December 1989, managers of the state companies successfully retained their positions of power as heads of the newly autonomous state companies and continue to maintain "connections" throughout the economy. If these individuals were inclined to discriminate against ethnic Hungarians or foreign investors of any nationality, including those from Hungary, they now would be in a position to do so. There is also a potential for backlash against ethnic Hungarians if they are perceived to be prospering in the midst of Romania's economic crisis. The question is, however, whether the traditional ethnic tension between ethnic Romanians and Hungarians has translated itself into systematic institutional discrimination and reluctance to cooperate together in the business world. Or, can the two communities overlook their traditional problems and do business together fairly?

An important consideration is that Romania, like its neighbors, does not have a "perfect market." In 1990, Romania had the most centralized economy in Europe and the second most impoverished population after Albania. It will take decades for a market economy to function properly. In the meanwhile, most Romanian citizens will suffer in the transition period and from the inherent inequities and fluctuations of a market economy while a small group will prosper. Throughout the former Communist bloc, various communities have been blaming their collective troubles on another group, be it the perceived "oppressor" or a "troublesome minority." For a society unaccustomed to a market economy, those suffering may wrongly put the blame on the so-perceived "oppressors" or achieve some sort of personal, social and/or political gain achieved by ascribing economic hardship to the majority. Conversely, a minority group sometimes becomes more assertive and "troublesome" as it advances economically. For example, it is sometimes, albeit simplistically, argued that Slovenia, the wealthiest republic in the former Yugoslavia, seceded in part for economic reasons. Moreover, in any situation in which there are majority and minority ethnic communities in a country, there will be a degree of tension

and isolated or even numerous cases of discrimination.

After conducting interviews in three cities in three counties in Romania, each with various proportions of Hungarian residents, economic structures and geopolitical conditions, I have concluded that systematic institutional discrimination against Romania's Hungarian minority and foreign investors from Hungary does not appear to be a widespread problem significantly affecting the Hungarians' ability to participate in the Romanian economy. Two well-known maxims essentially explain the low level of ethnically-directed economic discrimination in a post-Communist world rife with ethnic problems: "money talks" and "don't mix politics with business." The majority of people are struggling financially in post-Communist Eastern Europe and, put simply, most members of the business community in Romania recognize it is not profitable to discriminate in business.

In fact, the Hungarian minority's familial and collegial relations in Hungary, the common language, and the promise of Romania's 22 million strong market for the relatively more advanced Hungarian economy have facilitated steadily growing trade flows between the two countries. This includes the establishment of nearly 2,000 companies in Romania using Hungarian capital investment. While the majority of Romanian citizens involved in these joint ventures naturally are of Hungarian ethnicity, some firms have ethnic Romanian partners and staff. In any case, businessmen from both ethnic groups claim that there are no "hard feelings" against Hungarian entrepreneurs and economic cooperation with Hungary is considered to be a way to get ahead and to learn from the experience of Hungary, which has had a head start in its economic transition to a market economy. Common opinion among both Romanians and Hungarians in the Romanian business community is that further economic cooperation can potentially contribute to the stabilization of economic and political relations between the two countries. In turn, this should help strengthen relations between the ethnic communities within Romania, thus benefiting all countries and communities involved.

Methodology

The material for this research project was collected over a 10 month period, from October 1995 to July 1996. Information came primarily, but not exclusively, from the following sources:

— Semi-formal interviews with indigenous Hungarian entrepreneurs and investors from Hungary in the Transylvanian cities of: Cluj, in Cluj County; Satu Mare, in Satu Mare County; and, Miercurea-Ciuc, in Harghita County;

- Statistical data from and interviews with representatives of the Romanian National Trade Office (NTO) in Bucharest and county level Chambers of Commerce, Industry and Agriculture in Cluj, Satu Mare and Harghita;
- Statistical data from and interviews with representatives of the Romanian Development Agency;
- Regional newspapers and economic publications.

Using lists of joint ventures and foreign firms provided by the NTO and various Chambers of Commerce, I interviewed business owners and representatives in Cluj, Satu Mare and Miercurea-Ciuc. The study focuses on small and medium-sized enterprises where the majority of indigenous ethnic Hungarian entrepreneurs and investors from Hungary in Romania are concentrated. The semi-formal interviews were conducted using a standardized questionnaire. The names of the interviewees and the companies they represent are confidential and will not be disclosed in this report.

Following the completion of this study, Romanian national elections in November 1996 brought Emil Constantinescu and a reform government to power. The new government has already initiated a number of new laws that should further liberalize the Romanian economy and may attract higher levels of foreign direct investment in the country. In February 1997, Constantinescu's government proposed legalizing ownership of natural resources, including land, by foreigners in Romania.

These recent changes, however, are not addressed in this study and do not negate any of the conclusions drawn on the period in question, that is, the seven year reign of the immediate post-Ceausescu government of Ion Iliescu.

The Legislative Environment for Foreign Investment in Romania

After the revolution of 1989, Romania began a long and painful transition from a centrally planned economy (the most centralized in Europe) to a market-type economy. Providing a new legislative framework for a private sector in the economy was a necessary first step for the Romanian economic transition. One of the most important factors in the economic reform process is the attempt to liberalize foreign trade. Whereas under the Communist regime imports and exports were strictly regulated by the central government, com-

merce is now almost completely liberalized. Firms no longer need import and export licenses for most commodities, and in a dramatic reversal from the 1980s, imports now exceed exports. A new import customs tariff schedule has been in effect since January 1992 (though on 1 July 1995, in a move to protect domestic producers, the government significantly increased tariffs for certain agricultural goods).¹

Another crucial aspect of Romania's new economy is the guarantee of private property and property rights. With respect to foreigners, the new Romanian Constitution of 1991 and the Land Law, also passed in 1991, stipulate that an individual who does not have Romanian citizenship cannot acquire land in any form. The 1991 Foreign Investment Law does permit land ownership by Romanians involved in joint ventures with foreigners. In these situations, the Romanian partner may contribute land as his share of the initial capital investment. The law permits foreign investors in Romania to purchase commercial or industrial buildings, but not the land beneath the building.²

Since private companies were disallowed prior to 1989, a new Company Law promulgated in early 1990 that regulates the establishment and operation of companies. The five types of companies include:³

- General partnerships (*societate in nume colectiv*) concluded between two or more people in which the partners are jointly liable for all debts. The capital needed to register can be in cash or in-kind contributions.
- Limited partnerships (*societate in comandita simpla*) in which the limited partners contribute the registered capital, and general partners provide the administration and management of the partnership. Limited partners are only liable up to the amount they contributed, while general partners are liable for all debts.
- Limited liability companies (*societate cu raspundere limitata*) are privately held companies in which the minimum number of shareholders is one, and the maximum is 50. Contributors are only liable up to the amount they contribute and, the minimum initial capital investment for the domestic partner is 100,000 lei (approximately \$30 as of July 1996). The minimum initial capital investment for a foreign investor currently is \$10,000. A foreign investor may be the sole partner of a limited liability company, but only in one company. Capital can be in cash or in-kind, but foreign contributions in-kind may not exceed 60 per cent of total foreign investment. The majority of corporations created in Romania since 1990 have been of this type.
- Joint stock companies (*societate pe actiuni*) require at least five share-

holders, and may be comprised of any combination of Romanian or foreign shareholders. Initial capital investment is 1 million lei (approximately \$350 as of July 1996). The minimum contribution by a foreign investor is \$10,000.

— Limited joint stock companies (*societate in comandita pe actiuni*) consist of two types of shareholders, general partners and limited partners. General partners have unlimited liability while limited partners are only liable in proportion to what they contribute.

Under the Company Law, "joint ventures" are not unique entities. "Joint venture" refers to a company that has both domestic and foreign investors and, usually, both domestic and foreign capital. Typically joint ventures are joint stock or limited liability companies with shares held by both Romanian and foreign investors, or a contract for production using imports with some type of production sharing (also known as a cooperation agreement).⁴ In addition to joint ventures, foreign investment is permitted in many different forms in Romania:

- Investing in an already existing company and/or acquiring shares, bonds or other securities of such a company;
- Acquisition of concessions, leases or agreements to manage economic activities, public services or production units belonging to larger companies;
- Acquisition of ownership rights over movable and immovable property barring land ownership; the acquisition of industrial and intellectual property rights;
- Acquisition of claim rights or other rights referring to carrying out economic activities associated with investment;
- Acquisition and construction of production facilities or other buildings, except residential ones, other than those related to the investment;
- Contracting out activities involved in exploration, exploitation, and distribution of production in the field of natural resources.⁵

The contribution of the foreign investor can be in the following forms: capital in foreign currency; equipment, means of transport, subcomponents, spare parts and other goods; industrial and intellectual property rights, patents, licenses, "know-how," company and trade marks; and proceeds and profits from business activities carried out in Romania, as well as goods and assets acquired after paying the taxes and fees required by Romanian law.⁶

Taxes and other duties on foreign investments are regulated by a series of Romanian laws passed since 1990. There is a 40 per cent income tax on annual profits for both domestic and foreign firms, which is rather

steep, especially for small companies. Income tax on foreign dividends in Romania is 20 per cent. The law does provide for 50 per cent exemptions for reinvested profits and 25 per cent exemptions for large volumes of exports and imports, research and development activities, and companies that have created 50 or more jobs.⁷

As a counterbalance to relatively high taxes, Romania offered profit tax incentives to companies with any foreign investment that registered before 1 January 1995. New manufacturing, agricultural and construction companies received a five year profit tax holiday. Natural resources, communications and transportation companies received a three year tax break. Companies in the service, trade and banking sector received a two-year break. The exemptions went into effect when the company started its activities as opposed to the date the company registered. This encouraged many joint ventures to register even if they were not yet ready to start operating.⁸ In addition to tax incentives, machines, equipment, installations, means of transport and any other imported goods necessary to an investment, and considered contributions in kind or bought by a foreign investor, are exempt from customs duties and the Value Added Tax (VAT). Raw materials, consumable goods, spare parts and major subcomponents used in production also are exempt from customs duties for a two-year period.⁹

In post-Communist Eastern Europe, joint ventures can be considered a reflection of the openness and attractiveness of a country's foreign investment laws. As outlined in the model posed by Celia Dražek and Władysław Jermakówicz (1993), a country in transition typically liberalizes its foreign investment laws in phases. In the most conservative environment, a government only grants limited autonomy to joint ventures. Characteristics of such an environment include: limitations on the nationality of the joint venture's chairman, meaning nationality is limited to that of the host country; limitations on repatriation of profits; and no guarantees against nationalization. In the second phase of liberalization, a country may increase the proportion of foreign ownership that a company is allowed, permit investments outside the manufacturing sector, simplify the commercial registration process, and provide limited guarantees against expropriation. In the third phase, liberalization of legislation allows for 50-100 per cent ownership by foreign investors, increased repatriation of profits, and domestic laws to guarantee against nationalization. Finally, in the most liberalized environment, 100 per cent foreign ownership is allowed (thus a company can be a subsidiary rather than a joint venture), joint ventures have the same rights as domestic firms, joint ventures can operate in almost all spheres of the economy, export and import licenses are not required, and international laws guarantee protection against ex-

propriation.¹⁰

According to this model, Romania's laws "on paper" covering foreign investment joint ventures put it in the third phase. The more liberal aspects of foreign investment in Romania include the freedom of "economic choice." As of 1990, foreigners could invest in almost any sector of the economy, barring "sensitive" sectors such as defense. Second, there is no limit on the nationality of the head of the company. This has been found to be an important factor in determining whether a joint venture is successful, since a limited choice may prevent the best person from taking charge and may be a stumbling block to effective cooperation. Also, a foreign partner may participate fully in the management and administration of the investment as stipulated by the company's memorandum of association.¹¹ Finally, a law passed in 1990 protects foreign investments from being nationalized, expropriated or requisitioned by the state.

Romania has passed the basic laws necessary to provide a legislative framework for foreign investment, but it has not yet arrived at the most liberal phase. Negative attributes of Romania's foreign investment environment are contributing to less than optimal levels of foreign direct investment. One of the largest stumbling blocks to foreign investment in Romania is the bureaucratic delay involved in registering a new company and changing a company's structure or activities.¹² Typically, it takes between one and two months for a domestic company to register and between two and three months for a joint venture or foreign firm to register in Romania. It is a complex process which often requires the approval of a multitude of governmental bodies, such as the local Chamber of Commerce, the mayor's office, the court and, sometimes, the Romanian Development Agency. A foreign enterprise which plans to contribute part of its capital in-kind, a piece of equipment for example, is required to procure a license from the appropriate government agency in Bucharest, which must be done in person and takes upwards of one month. A business consultant in Satu Mare who runs a company which will register firms claimed that many foreign investors were not willing to sacrifice their time and effort to the Romanian bureaucracy and would pull out of their investment effort when they realized the depth of the bureaucratic process.

Two other drawbacks have hindered foreign investment. According to Romania's foreign exchange regulations, foreign investors may transfer abroad annual profits and the proceeds from the sales of shares, bonds or other securities, including those resulting from the sale of the investment. Foreign investors may also transfer their contractual obligations and rights to other Romanian or foreign investors.¹³ A 1990 law, however, put an 8 to 15 per cent ceiling on the repatriation of domestic profits by foreign investors (though all export profits could be repatriated). That ceiling has

since been lifted, but it discouraged potential investors and left the business community under the impression that the government did not approve of the repatriation of profits.¹⁴ All domestic profits can be exchanged into foreign currency, and this is an important factor for potential investors. Second, while joint ventures can be 100 per cent foreign owned (thus really a foreign firm rather than a "joint venture"), foreigners are barred from owning land, subsoil resources, forests or water sources. This discourages foreign investors because it contributes to a sense of instability in an already unstable investment environment.¹⁵

It is not simply the legislation that creates a positive or negative investment environment. Inflation, financial stability, and the creation of a comprehensive commercial legislative framework also affect foreign investment. Other factors include the level of marketization and the "business culture" in the country. Romania did not undertake "shock therapy" economic reforms as Poland did, but its economic system has been transformed drastically considering the country's starting point, that is, a population with negligible if not free market experience.

Comparatively, the country is doing fairly well in terms of per capita joint ventures. The decline in numbers of new small and medium investors in 1994 and 1995 reflects the earlier success of the tax incentives offered by the original foreign investment law to those foreign investors registered before the end of 1994. In an attempt to attract larger foreign investments, Romania has now revised its foreign investment laws so that major tax incentives are offered to foreigners investing \$50 million or more.¹⁶ The only company to have invested so much to date is the South Korean automobile company Daewoo, which plans to manufacture automobiles in Romania. It made a \$50 million investment in 1995 and another \$50 million investment in 1996.

In terms of overall foreign direct investment (FDI), however, Romania ranks rather low compared to its Central European neighbors. The relative success of some countries ability to attract FDI is due to a host of reasons such as Hungary's earlier economic liberalization, Poland's successful shock therapy of 1991-1992, the Czech Republic's and Slovenia's geographical advantage. On the other hand, Romania is doing better than some of its eastern or southern neighbors which are having greater trouble with political instability or that are more isolated geographically (or both, as in Bulgaria).

Table 1:
*Foreign Direct Investment in Selected East European Countries*¹⁷

Country 1996 (\$ bn)	Pop	GDP 1996 (mil)	FDI 1995 (% real growth)	FDI (\$bn)
Bulgaria	8.4	2.4	.3	.5
Croatia	4.8	-1.5	1	1.1
Czech Rep.	10.3	4.3	5.8	6.2
Estonia	1.5	2.9	.7	.8
Hungary	10.3	1.5	10.7	13.1
Latvia	2.6	-1.6	.3	.4
Lithuania	3.7	2.0	.3	.4
Poland	38.5	7.0	6.8	10.2
Romania	22.7	6.9	1.6	1.7
Russia	148.3	-4.0	5.5	5.9
Slovakia	5.3	7.3	.7	.7
Slovenia	2.0	3.5	.6	.6

Romanian-Hungarian Bilateral Trade Relations

Following the official demise of the Council for Mutual Economic Assistance (CMEA) on 1 January 1991, Romanian-Hungarian economic relations have been conducted within the framework of a series of bilateral trade agreements. The first agreement, promulgated on 23 January, 1991, put Romania on the path to the free market by requiring all foreign trade to be conducted in hard currency. The second bilateral convention, signed on 16 September, 1993, purported to assist joint ventures and the flow of capital.¹⁸

After dropping dramatically in 1990, trade between the two countries increased annually, and trade in 1995 approximately matched 1989 levels. Trade in 1989, however, consisted wholly of government contracts between large state firms. In contrast, current trade is based on a higher volume of lower value exchanges involving small companies, primarily in the retail trade sector.¹⁹ In 1995, for example, 3,318 Hungarian firms exported products to Romania. Four hundred seventy of these firms exported over \$100,000 worth of goods, yet these exports represent 88.5 per cent of the year's total value of Hungarian exports to Romania. Meanwhile, 1,534 Hungarian firms imported Romanian goods, but only 198 firms purchased over \$100,000 worth of goods.²⁰

Table 2:
Romanian-Hungarian Trade, 1988-1990
(in millions of transferable rubles)

	1988	1989	1990
Exports: Romania to Hungary	314	283	155
Imports: Romania from Hungary	307	320	159
TOTAL	621	603*	314

*603 million transferable rubles calculated in 1990 is equivalent to \$435 USD million in 1996.

Table 3:
Romanian-Hungarian Trade, 1991-1995 (in millions of \$US)

	1991	1992	1993	1994	1995
Exports:					
Romania to Hungary	89	81	117	161	161
Imports:					
Romania from Hungary	122	178	168	167	274
TOTAL	211	259	285	329	435

As this data suggests, Romanian-Hungarian trade is characterized by a significant and growing trade surplus. According to the Hungarian Embassy in Bucharest, in 1995, Hungarian exports to Romania were 170 per cent higher than Romanian exports to Hungary. From 1994 to 1995, Hungarian exports to Romania rose 81 per cent while Romanian exports to Hungary in the same period rose only 8 per cent. The trade surplus is compounded by the fact that approximately 25 per cent of Romanian goods bound for Hungary are re-exports from third countries. This phenomenon is due to uncertain transport conditions in Romania and difficulties in enforcing commercial contracts.²¹

In the spring of 1996, Romanian and Hungarian representatives began negotiations on a bilateral Free Trade Agreement (FTA) to go into effect in 1997. The FTA under negotiation is almost identical to the accord signed by the Visegrad countries, which form the Central European Free Trade Area (CEFTA): Hungary, Slovakia, the Czech Republic and Poland. Romania aspires to join CEFTA and hopes that membership can be accelerated if Romania has already adopted and practices CEFTA's trade policies. At the least, Romania's trade with Hungary is equivalent to that of its trade with Poland, the Czech Republic and Slovakia combined, and an FTA should

further facilitate good trade relations with Hungary.²³

Romania's position towards the FTA reflects the fact that, in general, the Romanian government is pursuing closer economic cooperation with Hungary more aggressively than vice versa. This is due mainly to Romania's desire to join CEFTA and further integrate its economy westward, not only with Hungary but also Western Europe. To do this, Romania must work harder to achieve the economic status vis-à-vis the west that Hungary already has achieved. However, both countries are associate members of the European Union (EU). As associate members, Romania and Hungary are theoretically harmonizing their laws, including those regarding customs and commercial taxation, with those of the EU. This implies a natural convergence of Romanian and Hungarian laws which, ideally, should foster and facilitate further economic cooperation and trade.²⁴

Both Romanian and Hungarian governments claim they want to help and support bilateral economic relations. In addition to negotiations on the FTA, the Romanian Ministry of Commerce announced that Romania and Hungary would establish a joint committee for economic collaboration. This committee's goals include combating the shortage of investment capital in Eastern Europe and improving the flow of technology. There will be subcommittees for each major economic field that will explore possible opportunities for collaboration. The different fields include tourism, transport, industry and agriculture.²⁵

Hungarian Foreign Investment in Romania

Trade carried out by foreign owned firms and joint ventures operating in the respective countries is an important aspect of overall foreign trade, and a constructive building block in Eastern Europe's efforts to establish functioning market economies. Having such concrete ties in two different countries promotes the development of trade flows between the two countries.

Foreign investment in Romania is monitored through the National Trade Office (NTO) and a network of 41 Chambers of Commerce, Industry and Agriculture (one for each county and one for the municipality of Bucharest). Established in 1990, the NTO is responsible for tracking the activities of all domestic and foreign firms. In Romania, foreign investors can either invest in a pre-existing firm or collaborate with a Romanian partner, creating what is commonly known as a "joint venture." Alternately, a foreign investor can create a new firm without a Romanian investor. This is a legal Romanian entity but, confusingly, is also referred to by Romanian literature as a joint venture or "foreign firm."

In theory, the Romanian Law on Enterprises requires that every company register with its local Chamber of Commerce at inception, to apprise the Chamber of modifications in the company's structure or activities, and to notify the Chamber if it ceases to function. The Chamber then passes on the information to the NTO, which maintains a national database on all the companies in the country. In reality, however, after the initial registration, many companies fail to notify their respective Chambers of Commerce of changes in their activities, especially when they go out of business.²⁶

The law regarding the NTO's function was implemented in December of 1990, and the NTO's statistical record begins in 1991. NTO statistics reflect a record number of registrations in 1992 when actual enforcement of the 1990 law went into effect, forcing many already functioning companies to register after the fact. A second peak occurred in 1994 when thousands of firms nationwide registered as joint ventures to take advantage of the tax breaks offered to firms that have foreign investment. These incentives were included in the original legislation on foreign investment and were available only to firms registered before the end of 1994.²⁷

At the end of 1995, there were 495,104 registered companies in the country. Of these companies, 43,199 (8.75 per cent) included foreign capital in one form or another. The majority of these companies are in Bucharest. There are 117,509 registered companies in Bucharest, of which 24,033 (20.5 per cent) are joint ventures and foreign firms. These firms constitute 44.6 per cent of total foreign investment in Romania. Other urban areas with significant foreign investment include Timis county, and the cities of Constanta and Cluj.²⁸

Trade and mutual investment among the former members of the CMEA, especially in Eastern Europe and the Balkans, when compared to the newly independent republics of the former Soviet Union, is very low. This is largely attributable to capital shortages, a widespread desire for most of the countries to reorient their economies towards the relatively more wealthy west, problems enforcing contracts, poor transportation links, and political complications stemming from irredentism, war and lack of shared languages and cultures. At the end of 1995, East European investors accounted for \$39,058,710 (or 3 per cent) of foreign investment in Romania. There are 3,296 foreign investors (7 per cent) of East European origin in Romania.²⁹

Despite its low net value, Hungarian foreign direct investment (FDI) is a small but important and dynamic aspect of foreign investment in Romania. Hungarian FDI accounts for half of all former communist bloc investment in Romania. Between December 1990 and November 1995,

Hungary was the 19th largest foreign investor in Romania with a total investment of \$17,363,900 and 1813 firms.³⁰ As of April 1996, net Hungarian foreign investment rose to \$20,817,900 (1.4 per cent of all foreign investment in Romania). At the same time, there were 1,889 firms with Hungarian hard currency investments, accounting for 4.2 per cent of joint ventures and foreign firms in Romania.³¹

Hungarian investment is typically characterized by a small initial investment and small-sized companies. Fewer than 50 of Romanian-Hungarian joint ventures in Romania have a capital worth of \$50,000 or higher. The largest Romanian-Hungarian joint venture (including wholly Hungarian firms) in the country is the newly opened "Banca de Credit Pater," based in Bucharest with a branch in Tirgu-Mures. The bank's initial hard currency capital investment was \$4,455,990. The next two largest joint ventures include a domestic trading firm in Arad and a meat processing factory in Harghita, worth \$1,880,000 and \$947,980 respectively.³²

Table 4:
Romanian-Hungarian Joint Ventures in Selected Romanian Counties

County	Total # of Joint Ventures	% Hungarian - Romanian
Bistrita-Nasaud	176	14
Brasov	1,069	4
Cluj-Napoca	1,980	16
Covasna	191	57
Harghita	542	61
Mures	715	31
Salaj	107	21
Satu Mare	350	30
Sibiu	801	0.02

The majority of Romanian-Hungarian joint ventures are located in Transylvania and other counties where there are significant ethnic Hungarian populations, particularly Harghita and Covasna, the two counties in Romania where the ethnic majority is Hungarian. There are over 6,000 joint ventures in Transylvania and western Romania.

Table 5:
Romanian-Hungarian Joint Ventures by Sector

Base Sector	Total # of Firms	Base Sector	Total # of Firms
Agriculture	4	Foreign trade	5
Banking services	1	Infrastructure	1
Chem/Petrochemisty	2	Insurance services	0
Civil construction	3	Light industry	5
Domestic trade	17	Machine building	2
Electronics	3	Telecommunications	0
Electro-technics	2	Tourism	6
Extracting industry	0	Transportation service	6
Food industry	9	Wood processing	2

The Romanian Development Agency (RDA) registers all joint ventures and foreign firms. Upon registration, it asks them to list their "primary activity." Firms additionally may list up to five different "base" economic activities. Firms are not legally bound to operate in their "primary activity" or even secondary activities, but theoretically companies are to notify the RDA when they change their type of activities. The Romanian Ministry of Commerce estimates that 50 per cent of Romanian-Hungarian joint ventures are involved in commerce. Other joint ventures may be small factories involved in areas such as textiles, milk, shoes, and small-scale chemicals manufacturing.³⁴

Cluj

As Romania embarked on its transition to a market economy, the city of Cluj was well situated to become one of the leading economic centers of the country. The historical capital of Transylvania, Cluj is well known as a cosmopolitan, ethnically mixed university town. With its highly educated work force and diversified industrial base traditionally Cluj was a commercial center in the Habsburg era and the city continued to be economically important during the Communist period. Since 1990, Cluj has exploited its comparative advantage to become one of Romania's economic successes.

One of the city's strengths is that its economy has always been one of the most diversified in the country, helping it to weather the post-Communist economic crisis that has hit Romania. The unemployment rate in Cluj is consistently 2 per cent lower than that of

the rest of the country. For example in June 1996, Cluj's unemployment rate was approximately per cent compared to 9.5 per cent nationwide.³⁶ The main industries in the city are non-metal minerals; metallurgy; food processing; chemical and fiber processing; cellulose, paper and pulp; equipment and machinery; shoes and leather; and furniture and wood products.³⁷

In 1990, there were 260 companies in the city, all of them state-owned. By the beginning of 1996, there were almost 23,000 registered companies in Cluj, more than any county in Romania, other than the municipality of Bucharest. Of these 23,000 companies, only 46 have partial state capital while another 2,000 are joint ventures and foreign firms. Most of the companies are small and medium-sized companies focused on retail trade. Recently, some of the more profitable private companies have accumulated enough capital to reinvest their profits in industry and manufacturing.³⁸

Since the decentralization of Romania's banking system, finance and banking has played a major role in the city's private sector development. Two of Romania's most important new private banks are headquartered in Cluj: Transilvania Banca and Dacia Felix Bank. Established in 1990, Dacia Felix grew so rapidly that by 1991 it was the country's largest bank. Cluj has also been home to the expanding mutual fund and insurance markets. The banks and mutual funds have contributed significantly to Cluj's development, providing cash for new enterprises, capital and physical investments, and heightening the business culture of the city.³⁹ Caritas, an astonishingly successful pyramid scheme based in Cluj that started in 1992 is also responsible for a portion of the private business development in the city. In its first year of operation, Caritas was limited to Cluj citizens only, and they reaped the benefits of its 800 per cent return over three months. Many Romanians invested this money in new businesses, renovation of buildings and consumer goods. When Caritas collapsed dramatically in the fall of 1993, the city suffered a short recession. In comparison, it is yet to be seen what impact the financial crises of 1996 and 1997 will have on Cluj, including the bankruptcy of Dacia Felix Bank and devaluation of the leu.

Cluj has been one of the country's beacons for attracting foreign investment. Germans have been the largest investors in Cluj, due partially to the fact that Germany is one of Romania's traditional economic partners and that many Romanian émigrés have settled in Germany. Statistically Luxembourg appears to be a large investor, but this is a reflection on Luxembourg's status as a banking and tax haven and is allegedly being used by certain Romanian businessmen to channel their investments into Romania and particularly Cluj. All together, Germans and other investors,

primarily from Italy, France, Hungary and Austria, have invested over \$70 million in approximately 2,000 companies. To date, this investment has been centered in retail trade, the food industry, textiles and clothing, and tourism.

Approximately 20 per cent of the city's population is ethnic Hungarian, and like Satu Mare and Harghita, Cluj's Hungarians are well positioned to form joint ventures with Hungarian investors. Many Cluj residents have relatives who emigrated to Hungary, Germany or other countries before and since the revolution. As a university town, Cluj has a highly educated and skilled work force that is relatively better connected internationally than many other Romanian towns. Students, especially since 1990, have had opportunities to study abroad, particularly in Hungary, and more foreigners have come to Cluj to study and teach. These academic connections have benefited the town economically since investors feel more comfortable investing in a city with which they are familiar and in which they can identify potential partners.

Table 6:
Foreign Investors in Cluj County (as of July 1995)

Country Origin of Investor	Original Capital Investment (\$US)	Total # of Firms	Avg. Investment per Firm
Austria	\$598,423	102	\$5,867
France	\$1,210,161	61	\$19,839
Germany	\$14,639,569	280	\$52,284
Hungary	\$1,069,479	298	\$3,589
Italy	\$12,973,500	250	\$51,894
Luxembourg	\$36,656,100	14	\$2,618,293
USA	\$589,978	69	\$8,550
Others	\$2,752,855	868	\$3,171
Total:	\$70,490,065	1,942	\$36,298

Table 7:
Romanian-Hungarian Joint Ventures in Cluj (by Sector)

Sector	Firms	% of total firms
Commerce	158	54
Construction	12	4
Production	67	23
Service	57	19

As a result, at the beginning of 1996, there were almost 300 Romanian-Hungarian joint ventures or Hungarian firms registered in Cluj, second only to Harghita County in terms of number of firms with Hungarian investment.⁴² Though there are many firms, as the data reflects, most Romanian-Hungarian joint ventures are small, with an average value of approximately \$3,500, compared to the average of \$50,000 for German and Italian firms. Half of these firms are involved primarily in trade, while another quarter are operating in the industrial sector, and the remaining in miscellaneous services and construction.

Although Cluj is generally one of the best known and well respected towns in the country, it has gained a degree of international notoriety due to its anti-Hungarian mayor, Gheorge Funar. Elected in 1992 and re-elected to another four year term in June 1996, Funar is the leader of the nationalist Party of Romanian National Unity whose stated goal is to make "Romanians the master in their own house."⁴³ After four years in office, Funar has had time to staff the city's administrative bodies with his party members and supporters. This potentially opens the door to discrimination by municipal employees against business owners attempting to register their firms or perform other bureaucratic tasks. However, only one interviewee in Cluj—an Austrian-owned firm run by an ethnic Hungarian from Romania and there are no Romanian citizens as partners—believed that his company experienced problems registering because it was a foreign firm. For the most part, Hungarian business owners in Cluj acknowledged the problems between the Romanian and Hungarian communities and Funar's open hostility to ethnic Hungarians, but they did not believe that their businesses suffered financially due to their ethnicity. In fact, one of Funar's most noticeable accomplishments as mayor is a downtown "renovation" program in which the city has encouraged renovation and painting of many buildings in Cluj's picturesque downtown as part of an effort to attract foreign tourists and investors.

Satu Mare

Satu Mare is the capital city of Satu Mare county, which is located in the northwest corner of Romania, bordering Hungary and Ukraine. Its economy is based primarily on light manufacturing, such as wood processing, furniture manufacturing and clothing. While the rest of the Romanian economy essentially is centralized around Bucharest, the great distance from Satu Mare to Bucharest makes foreign trade and foreign direct investment (FDI) a key part of the local economy. As the data reflects, Germany is the single largest investor in Satu Mare. Italy, Hungary, Austria and Spain are

also important foreign investors.

Although Satu Mare neighbors Ukraine, bilateral trade is negligible for numerous reasons: border difficulties; Ukraine's weak economy; convertibility issues; the lack of trade agreements between the two countries; lack of contract enforcement in Ukraine; and lack of a common language. The combination of these barriers has precluded serious economic cooperation since the demise of the CMEA in 1991.

Table 8:
Foreign Investors in Satu Mare (as of December 1995)

Country Origin of Investors	Original Capital Investment (\$US)	Total # of Firms	Avg. Investment per Firm
Austria	\$222,737	23	\$13,921
Germany	\$5,624,223	104	\$54,079
Hungary	\$641,658	103	\$7,682
Italy	\$791,284	36	\$21,980
Spain	\$266,327	n/a	n/a
Others	n/a	84	n/a
Total:	n/a	350	n/a

In contrast to the poor economic relations with Ukraine, Romanian-Hungarian bilateral trade and Hungarian investment in Satu Mare (both city and county) has been an integral part of Satu Mare's economic development since 1990. Hungary is the third largest net foreign investor in the county, and there are approximately the same number of Romanian-Hungarian firms as there are Romanian-German firms. Over half of these firms engage in commerce and import-export of retail goods and foodstuffs. Investments in production and manufacturing are concentrated primarily in light manufacturing of wood products, furniture, textiles and clothing.

Table 9:
Romanian-Hungarian Joint Ventures in Satu Mare (by Sector)

Sector	Firms	% of total firms
Commerce	57	55
Import-Export	15	14
Production	17	16
Service	15	14

As of April 1996, there were 104 Romanian-Hungarian joint ventures in the county of Satu Mare. Examples of investments include:⁴⁵

- *Unio Taurus SRL*, established in 1994, works with rubber and tire production. It is a joint venture between the Romanian company *Unio* and the Hungarian tire company *Taurus*. The initial capital investment in 1994 was over 147 million lei, of which *Taurus* contributed \$67,000.
- *Bere Kanisza SRL*, a beer importing firm with a Romanian-wide distribution network. In the late winter of 1996, the firm became embroiled in a scandal for not reporting its profits.
- *Egly Romania SA*, established in 1994, is a commercial trade and retail firm. \$10,000 of the original capital investment came from the Hungarian investor.

Many factors have contributed to a positive foreign investment environment for Hungarian investors in Satu Mare and the indigenous Hungarians of the region. First of all, the Hungarian community of Satu Mare has extensive familial and collegial relations with émigrés who left for Hungary (and Germany) before 1989. Émigrés comprise a major portion of foreign investors who have invested in Romania since 1990. Second, the majority of Hungarians in Satu Mare worked in the industrial and manufacturing sector before the revolution and have experience in all fields related to running a small factory. Another factor is that many small but established Hungarian companies have been interested in expanding east into the infrastructure building sector.

Miercurea-Ciuc

Miercurea-Ciuc is the county seat of Harghita, one of the two counties in Romania with a majority of Hungarian citizens. Out of a total county population of 363,000, approximately 85 per cent are ethnic Hungarian while 15 per cent are ethnic Romanian. At the end of 1995, 7,500 companies were registered in Harghita county, of which 542 were joint ventures and foreign owned firms.⁴⁷ Of these enterprises, 336 are Romanian-Hungarian joint ventures or Hungarian owned firms, more than any other county in the country.⁴⁸ By spring of 1996, the total number of joint ventures rose to 576 with Hungarian foreign investment accounting for 76 per cent all of foreign investment in Harghita.⁴⁹

Like other Romanian cities with large Hungarian populations

most, though not all, joint ventures and Hungarian owned firms established in Miercurea-Ciuc and Harghita county are the result of family connections. It is estimated that two thirds of the population of Miercurea-Ciuc have relatives in Hungary. Other contributing factors to support the joint ventures include shared language, and access to information about Romania's business climate and laws.

Table 10:
Foreign Investors in Harghita (as of May 31, 1996)

Country Origin of Investor	Foreign Cap. Investment(\$)	Total No. of Firms	Avg. Investment per Firm
Hungary	\$4,188,987	336	\$12,467
Germany	\$1,814,233	60	\$30,237
Italy	\$330,127	14	\$23,581
Canada	\$2,479,718	12	\$206,643
Austria	\$424,004	42	\$10,095
USA	\$1,426,144	20	\$71,307
Others	\$7,499,114	92	\$81,512
Total:	\$18,162,327	576	\$31,532

One example of how access to information and facilitation of a shared language can benefit foreign investment is a joint venture in Miercurea-Ciuc involved in performing surveys of agricultural land. The Hungarian partner owns a similar company in Hungary which has been profitable due to the high demand for such surveys during the agricultural decollectivization process in Hungary. The owner knew that the decollectivization and agricultural privatization process was not yet complete in Romania. He advertised in a Romanian newspaper for a partner with the appropriate technical knowledge to form a joint venture similar to his company in Hungary. A firm in Miercurea-Ciuc was already performing such a service and was about to take a bank loan to purchase modern equipment. Rather than take the loan, the company formed a joint venture with the Hungarian investor. This benefited the Romanian partners (all ethnic Hungarians) because they avoided the high interest rate loan (approximately 55 per cent) and gained access to the knowledge and experience of the Hungarian partner.

In contrast to other cities and counties where foreign investment is focused in the commerce and consumer goods retail sector, over half the FDI in Harghita is concentrated in production. Wood production and wood furniture for export is an important aspect of the local economy and a profitable industry for foreign investment. The

third largest Romanian-Hungarian joint venture in the country is located in Harghita. It is a prepared meat factory that was established by a Hungarian who emigrated to Denmark over fifteen years ago and has since built an international food and meat processing business. The initial capital investment in the factory was nearly \$1,000,000 and it employs almost 100 local residents and additional half dozen seasonal laborers from Hungary.

Table 11:
Joint Ventures in Harghita by Sector (as of May 1996)

Sector	Firms	% of total firms
Commerce	136	24
Construction	8	0.01
Import/Export	27	0.05
Production	330	57
Services	75	0.05

The Viability of Romanian-Hungarian Joint Ventures in Romania

Not surprisingly, Hungarian investment in Romania boomed in the first few years after the revolution and then tapered off in 1995. In 1995 total foreign investment and Hungarian investment in particular dropped precipitously. For example, in Satu Mare a total of 150 new joint ventures (29 of which were Romanian-Hungarian joint ventures) registered in 1994 in comparison to 25 new companies which registered in 1995 (including three Romanian-Hungarian firms).

This drop can be explained by two changes in Romania's Foreign Investment Law. First, as of 1 January 1995, the investment floor for foreigners rose from \$100 to \$10,000. When the minimum capital investment in a joint venture by a foreigner was \$100, it did not pose a challenge to potential small investors from less affluent countries such as Hungary. As the data reflects, Hungarian investment soared after the revolution and continued to rise steadily through 1994. In the final two weeks of December 1994, prospective entrepreneurs of all ethnic groups and nationalities flooded Chamber of Commerce offices and municipal courts throughout the country to register new joint ventures.

Second, as the capital investment floor rose, most incentives and tax breaks offered to foreign investors and domestic businessmen were simultaneously discontinued at the beginning of 1995. Prior to 1995, domestic firms received a corporate (profit) tax holiday starting immedi-

ately upon registering the company and according to the following schedule: commerce, half a year; services, one year; and production, five years. In contrast, foreign firms and joint ventures received corporate (profit) tax holidays starting from the first registered activity — which could months or years after the date of registration — and according to a more generous schedule: commerce, two years; services, three years; and production, five years. With such incentives, many firms registered far in advance of the anticipated start of activity. Some registered simply to have the option to start a firm at an undetermined date and exploit the tax holiday. It is estimated that 10-20 per cent of the companies registered before 1995 in Satu Mare never began functioning. In fact, it is possible to buy a still non-functioning registered joint venture through advertisements in the newspaper and be eligible to benefit from the tax holiday.⁵² Now, however, only foreign investors investing \$50 million or more and which adhere to local content rules and other restrictions, continue to receive financial incentives in the form of tax breaks and investment by small to medium foreign investors is down compared to the 1990-1994 period.⁵³

Although there are no substantiating statistics, one could speculate that it was perhaps easier for Romanian-Hungarian joint ventures to take advantage of the opportunity to register a non-functioning firm than it was for investors from other countries. Many Romanian-Hungarian "business" relationships stem from family or collegial relationships, such as between two work or university colleagues, one of whom had left Romania before 1989. The relatively informal nature of such a relationship would make it easier for a firm to register without serious intent to do business in the immediate future. In contrast, a business relationship with an individual or firm from another country such as France would be a traditional "standard" business relationship based upon a concrete business plan and business contract. For this reason, Romanian-Hungarian firms would have participated to a greater extent in the "rush" to register in December 1994 compared to joint ventures from other countries and this would partially account for the large drop off in Romanian-Hungarian joint ventures following 1994.

For example, one ethnic Hungarian businessman in Cluj owns two firms that perform exactly the same tasks. The original company was established in 1993 and it proved to be profitable. The second one was established in December 1994 solely to take advantage of the tax break offered to joint ventures. The Hungarian investor immigrated to Hungary from Romania in 1988 and is a friend of the Romanian partner from their university days. The Hungarian partner is a partner in name only: he has contributed no capital or effort to either business. Essentially the Hungarian was approached by his col-

league in Romania to be a "silent partner" so that the company could receive the profit tax break offered to joint ventures, not just once, but twice.

While Hungarian investors may benefit from informal ties with Romanians, they also face particular challenges that do not affect other foreign investors. Many obstacles exist that have hindered even more vibrant Romanian-Hungarian economic cooperation. Some of these obstacles stem from the nature of economics in the region, others are the result of specific legislation, and yet others are the result of social forces in Romania.

First of all, like Romania Hungary is undergoing an economic transformation. Although it has a twenty year "head start" over Romania in the transition from a socialist economy to a market type economy, its economy nonetheless experienced a severe recession in the early 1990s and continues to suffer from major structural and financial problems. Entrepreneurs in the growing private sector and potential foreign investors were, and to some extent, continue to be constrained by a shortage of capital, limited access to credit, and a relative lack of free market experience.

However, while Hungary's economy appears to be on the road to recovery, Romania's revised foreign investment laws could be considered an obstacle to continued Hungarian investment. Despite the relative strength of the Hungarian economy, the majority of Hungarian investors in Romania are small firms involved in commerce and retail, a sector that traditionally does not require large initial capital investments. Taking into account the devaluation of the leu, 70 per cent of the joint ventures in Satu Mare between 1991 and the end of 1994 had an initial capital investment of less than \$10,000. While nearly two thirds of the investments in 1994 were over \$10,000, the \$10,000 minimum investment is a still significant barrier to many potential Hungarian investors.

Table 12:
Initial Hungarian Investment per Firm in Satu Mare, in Foreign Currency by Year (1991-1995)

Year	< \$1,000	\$1,000- \$10,000	\$10,000- \$20,000	Over \$20,000	Total Firms
1991	5	8	2	2	17
1992	19	0	0	0	30
1993	17	0	0	0	25
1994	0	0	16	0	29
1995	0	0	2	1	3

Second, some Hungarian companies are not interested in being the final beneficiary of Romanian products nor paying market prices for Ro-

manian goods. Instead, they act as the middleman and re-export Romanian products to other European countries. For example, the Hungarian consumer market can not afford Romanian wood furniture, but Hungarian firms are eager to export it to Western Europe where it is a popular commodity. Since the Hungarian middleman is in a position of relative strength compared to the Romanian manufacturer, the Romanian does not receive the best possible price and may try to export the good directly or export through another country that could give him a better price.

Another obstruction to trade is that the Romanian government in August 1995 to protect the Romanian domestic market imposed a new customs schedule on foodstuffs. Tariffs on Hungarian wheat rose 138 per cent and Hungarian beer by 248 per cent, effectively shutting off Romanian imports of many Hungarian products.⁵⁵ Overall, there is a considerable Romanian-Hungarian trade deficit, which puts the Romanian economy in a disadvantaged position vis-à-vis the Hungarian economy.

Despite the common ethnicity, language and socialist experience, there is a cultural and economic gulf between the Hungarians of Hungary and those of Romania. These problems extend to the ethnic Romanian business community. Although Hungary was a member of the CMEA and officially a socialist country until 1990, it embarked on economic liberalization and market reforms in 1968. As a result, Hungary's business community is better established and more experienced than its counterpart in Romania. Both ethnic Hungarians and Romanians in Romania are conscious of this division between the two countries and perceive the Hungarians to have more business savvy and be more aggressive in the market place. The ethnic Hungarian business community in Romania is aware that its brethren in Hungary are not trading with it as an act of "good-will," but are in pursuit of profit.

In fact, some Hungarians in Romania are wary of engaging in business with Hungarian firms. It is generally known in Romania that Romanian companies and business skills are not well respected in Hungary or other countries in Europe (especially Germany), and they are easy victims for economic abuse. For example, Hungarian firms occasionally do not respect their contracts with Romanian firms and do not pay what is owed. Although this practice is illegal and contrary to good business ethics, Romanian firms rarely can afford to take up the matter in a Hungarian court. They are required to hire a Hungarian lawyer, and it is generally not worthwhile financially to pursue their case.⁵⁶ Additionally, many Romanian firms, especially in industry and energy, are in arrears and have failed to pay foreign suppliers.⁵⁷ For

this reason, Hungarian firms may require Romanian firms to pay for delivery up front out of fear that the Romanians will not make good on their contracts. Romanian firms perceive this as a sign of distrust. It is difficult to gauge how widespread these practices are, how many companies they have affected to date, and to what degree mutual suspicion is justified. Most interviewees in this project referred to this mutual distrust yet did not seem deterred by the harsh business practices of the Hungarians.

For the ethnic Hungarian community in Romania, and in particular Satu Mare since it is near the border, Hungarian foreign investment posed a good economic opportunity, but overall has not played a very important role in the post-Communist economic life of Hungarians in Romania. Many indigenous Hungarians have simply focused their efforts on developments within the community and on making their own personal situations better. The Satu Mare Chamber of Commerce has engaged in cultivating trade relations with counties in Hungary, focussing its efforts on the neighboring county of Nyiregyhaza. Binational activities include trade symposiums and trade missions. In general, however, the Chamber of Commerce is more involved in working with institutions and courting Hungarian foreign investors than in supporting individual firms or supporting indigenous Hungarian entrepreneurship.⁵⁸

Despite the opportunities available in the liberalized economic climate since 1989, and particularly through foreign investment, the Hungarian business community in Romania has faced problems domestically, which have affected its economic success, especially in the first few years after the revolution. In 1992, a prominent ethnic Hungarian businessman and member of the Satu Mare City Council compiled statistics on Hungarians in the private sector in Satu Mare. The results showed that while Hungarians comprised 40 per cent of the population in the city of Satu Mare and 37 per cent of the population of the county, they comprised only 30 per cent of the owners of private firms and contributed only 20 per cent of the social capital in the private sector. Thus, their representation in the private sector did not match their representation in the population.⁵⁹

One of the primary problems for Hungarian entrepreneurs, indigenous Hungarians or investors from Hungary, is that going into the post-revolutionary era they lacked good connections to the centralized state institutions that controlled (and, in some sectors, still control) distribution and transportation of goods. In Satu Mare, approximately 90 per cent of former major factory managers were ethnic Romanians and 10 per cent were Hungarians. Most managers retained their jobs after the revolution and are now in positions of power in the economy. Hungarians are

not proportionally represented in Satu Mare and this affects their ability to "compete" in the imperfect market endemic to economies in transition. This situation essentially creates "glass walls" for companies competing for work in sectors in which state firms or former state firms are important players. Some Hungarians claim that the recently privatized state companies and remaining state firms actively engage in preferential trading practices with ethnic Romanian firms, forcing Hungarian companies to employ an ethnic Romanian to "network" and land contracts.

For example, one Hungarian sanitation and gas company in Satu Mare consists of two companies, one company is staffed wholly by ethnic Hungarians and the other has a staff that is half ethnic Hungarian, half ethnic Romanian. The owner insists that to work in the gas sector, a company needs agreements and contracts with the centralized gas institutions that can be obtained only with the "right connections," that is *ethnic Romanian* connections. While arguably this might not be a manifestation of current discrimination, it is a legacy of the discrimination practiced by the centralized Communist government. Thus, the Hungarians who were discriminated against in the past now lack the necessary connections they need to compete "equally" in the post-Communist economy.

The fact that Hungarians are now being elected to the democratically elected bodies in areas with larger Hungarian populations, the city councils of Satu Mare and Miercurea-Ciuc, for example, has not significantly affected the situation of Hungarian entrepreneurs. Even if an elected body is controlled by Hungarians, the majority of the administrative staff of the governmental organs involved in commercial activities, such as the Chamber of Commerce, remains predominantly ethnic Romanian. Some Hungarians argue that it is more difficult for young Hungarians to get jobs in these institutions and allege that Hungarians were fired before their ethnic Romanian colleagues in the layoffs that followed the start of Romania's market reforms in 1990. Also, it is still rare for ethnic Hungarians to receive high profile political appointments. There is not a single ethnic Hungarian director of a Chamber of Commerce or a county prefect in the country, even in the counties of Harghita and Covasna, where Hungarians are the majority.

It is unknown, however, how much the political and administrative systems have affected or could affect Hungarian businesses or potential foreign investors. The laws for registration are time consuming but clear, and it does not appear that the process of registering a business lends itself to obstructionism on the basis of ethnic discrimination or xenophobia. Since almost all firms hire lawyers to register the firms at the local city hall, the opportunity for interface between "the sys-

tem" and the individual entrepreneur is minimized and may help reduce discrimination. Nevertheless, there have been isolated cases of discrimination against ethnic Hungarian businessmen, particularly in Cluj, where the fervently nationalist mayor has been in power since 1992 and ethnic tensions are heightened.

Finally, political rhetoric surrounding Romania's Privatization Law adversely affected Hungarian entrepreneurs. Some nationalist politicians scared people away from investing in Hungarian companies or companies in predominantly Hungarian areas of the country. For example, at one Satu Mare firm with a large number of ethnic Hungarian workers, the workers planned to bid on the 40 per cent shares available through the "managed employee buy-out" process (MEBO), one of Romania's methods for privatizing state-owned companies. A local Romanian nationalist politician turned the company's privatization into a political issue by accusing the buyers of being representatives of the country's Hungarian ethnically based political party, the Hungarian Democratic Federation of Romania. He successfully urged local ethnic Romanians to outbid the employees. Other nationalist politicians assert that Hungary is trying to "buy back" Transylvania and that the nation must be "on guard" against the Hungarians' tactics. An article in the daily newspaper *Mesagerul Transilvania*, for example, chronicles alleged hardships the travesties of ethnic Romanians living in the predominantly Hungarian counties of Harghita and Covasna, and states that "...the process of magyarization...over a long time...brought true ethnic and cultural genocide of the Romanians.... from innocent mixed marriages to constriction of the economic order, politics and even physically."⁶⁰

Conclusion

Considering the complex factors affecting Romanian-Hungarian relations, increased economic cooperation can possibly help relations between the two ethnic communities, within Romania and between the two countries. But at least under the Iliescu government, growing economic cooperation did not have a major impact on social and political relations. There is some degree of economic discrimination against Hungarian entrepreneurs, both indigenous ethnic Hungarians from Romania and foreign investors from neighboring Hungary. For the most part, discrimination against Hungarians manifests itself at the individual and collective level rather than at the company level. That is, individuals face subtle discrimination for being Hungarian in the large mixed firms and state companies, creating the glass walls and ceilings phenomena. At the political level, Hungarian entrepreneurs and investors are used as campaign fodder

— sometimes successfully, sometimes not — for Romanian nationalists playing on Hungary's irredentist ties to Transylvania. Meanwhile, at the inter-firm level (trade between companies), discrimination is less of an issue; money talks and political differences only contribute to economic loss for both sides. Few entrepreneurs can afford to discriminate in the post-revolution economy.

In conclusion, it does not appear that institutionalized ethnic discrimination has been a constraining factor in Hungarian investment in Romania, or has significantly stifled the development of the ethnic Hungarian entrepreneurial community in Romania. In fact, Hungarians in Romania and ethnic Romanians can benefit a great deal from the relative wealth, financially and in terms of experience that Hungarian investors can offer. Through the shared language, family and friends, Hungarians in Romania have a unique opportunity to secure investment capital and support from a related community outside the country. However, from 1990 through 1996, the Romanian government was indifferent to the potential force of Hungarian foreign investment. This indifference, and isolated cases of discrimination against Hungarian businesses and businessmen, either from Hungary or of Romanian citizenship, was a small but recognized constraint to the dynamic and growing Romanian-Hungarian economic cooperation in the half dozen years following the Romanian revolution.

Notes

¹ Coopers & Lybrand, *Romania, Yes! An Investment Guide*. Bucharest: Romanian Development Agency (hereafter cited as RDA), 1995, pp. 62-63.

² *Ibid.*, pp. 68-70.

³ *Ibid.*, pp. 19-20.

⁴ *Ibid.*, pp. 29.

⁵ *Ibid.*, p. 15.

⁶ *Ibid.*, pp. 15-16.

⁷ *Ibid.*, pp. 30-36.

⁸ Sofia Andreoiu, National Trade Register Office (NTO), Bucharest, personal communication to author, 15 January 1996.

⁹ Coopers & Lybrand, *Romania, Yes!*, p. 36.

¹⁰ Celia Dražek and Władysław Jermakówicz, "Joint Venture Laws in Eastern Europe: A Comparative Assessment," in Patrick Artiseien, Matija Rojec, and Marjan Svetlicic, editors, *Foreign Investment in Central and Eastern Europe* (New York: St. Martin's Press, 1995), pp. 151-152.

¹¹ Coopers & Lybrand, *Romania, Yes!*, pp.16-17.

¹² *Country Report: Romania* (London: The Economist Intelligence Unit (EIU), 1995), p. 6.

¹³ Coopers & Lybrand, *Romania, Yes!*, pp. 16-17.

¹⁴ *Global Research Central & Eastern European Investment* (London: Euromoney Publications PLC, 1994), p. 184.

- ¹⁵ Dražek and Jermakówicz, "Joint Venture Laws in Eastern Europe," pp.155-167.
- ¹⁶ Coopers & Lybrand, *Romania, Yes!*, pp. 36-37.
- ¹⁷ "Monthly Update," *Business Central Europe* December /January 1997, p. 69.
- ¹⁸ Constantin Miu, Romanian Ministry of Commerce, Bucharest, personal communication to author, 3 May 1996.
- ¹⁹ Ibid.
- ²⁰ "Preparing the Free Trade Accord. Offensive on the Romanian Market" (translated from *Magyar Hirlap*) in *Adevărul de Cluj* (Bucharest) Vol. 7, No. 1683, 3 June 1996, p. 3.
- ²¹ "Preparing the Free Trade Accord," p. 3.
- ²² Miu, personal communication to author, 3 May 1996; and *Buletin Statistic de Comerț Exterior*, National Commission for Statistics, Vol. 3, No. 7 (February 1996), pp. 14-19.
- ²³ "Comerțul exterior- un principal beneficiar al integrării României în Uniunea Europeană" in *Adevărul Economic* (Bucharest) Vol. 17, No. 215 (26 April - 2 May 1996), p. 21; and Miu, 3 May 1996.
- ²⁴ "Comerțul exterior," p. 21; and "O privire optimistă asupra relațiilor economice româno-ungare," in *Adevărul Economic* Vol. 44, No. 190 (28 October - 3 November 1995), p. 16.
- ²⁵ Miu, personal communication to author, 3 May 1996.
- ²⁶ Andreoiu, personal communication to author, 15 January 1996.
- ²⁷ Andreoiu, personal communication to author, 15 January 1996.
- ²⁸ *Monthly Statistic Synthesis* (NTO), November 1995.
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