



Swiss Investment Report

Bucharest, February 2010



The Ambassador's Foreword

Dear Readers,

The New Year marks the beginning of a period of intensification of the bilateral political and economic relations between Switzerland and Romania. In 2010, Switzerland will start the first projects within the Swiss EU Enlargement Contribution to Romania. The Contribution has a financial volume of approximately 120 million EUR. Economically, Switzerland will consolidate its position as one of the Top-10 investors in Romania, and bilateral trade should pick up after a rather difficult 2009.

Regularly, questions are asked to the Swiss Embassy about the importance of Swiss investments in Romania. Faced with figures which differ substantially from one source to the other, we decided to do our own research by focusing on investors who have indeed a strong Swiss component (capital, ownership, origin). But our objective goes beyond giving more reliable information on a matter which, after all, does not pertain to the Embassy's field of competence.

Investments constitute, together with trade, one of the more relevant criteria to illustrate the weight of Switzerland's presence in a foreign country. In our foreign policy, the economy plays a priority role. It is therefore of utmost importance for the Embassy to know, first, where we stand with regard to investments, and, second, to be able to contribute to the development of our economic presence. This has not only positive consequences on employment and prosperity in Switzerland, but also contributes significantly to the reinforcement of our position vis-à-vis the Romanian Authorities.

The Swiss private sector is important for the Swiss foreign policy and our bilateral relations. It is crucial to give to our presence the highest possible visibility. This can only be achieved by a close relationship between Swiss companies and the Embassy. Let me now wish you a hopefully interesting reading of this study written by my deputy, Dr. Simon Geissbühler.

Yours sincerely,

The Ambassador of Switzerland

Livio Hürzeler

Introduction¹

Switzerland is a medium-size, but strongly export-oriented and internationally well-connected economy. Apart from several big and very successful Swiss-based multinational companies, small and medium enterprises (SMEs) are the backbone of this economy. Swiss investments abroad have a long tradition. The overall Swiss FDI amounted to 809 billion CHF at the end of 2008.²

Romania has been an interesting export market and an important source of imports (oil, wheat etc.) for Switzerland especially between the two World Wars. Swiss investors and companies have been active on a large scale in Romania since the end of the 19th century. After a relative stagnation during the communist regime, bilateral trade and Swiss investments in Romania have steadily increased since the early 1990s. Due to the difficult legal and business environment, Swiss investors had first been relatively reluctant to invest heavily in Romania, and those who invested did so rather discretely.

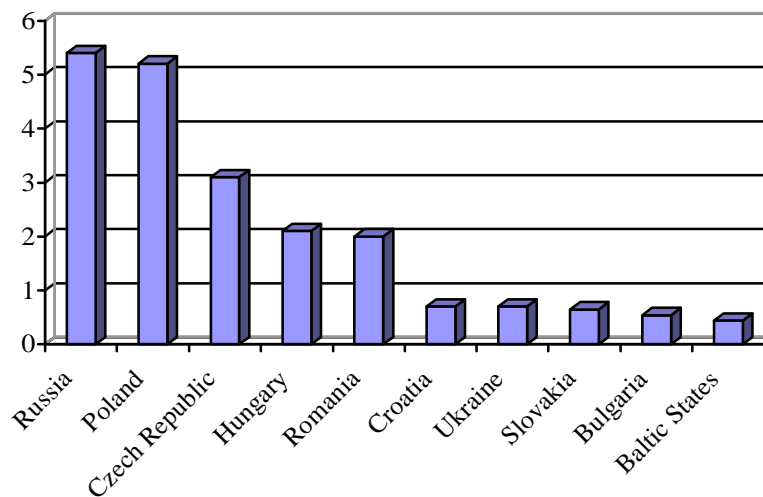
There are conflicting figures on current Swiss investments in Romania. According to the Romanian National Trade Registry, the Swiss investments of approximately 650 million EUR make up for 2.5% of the overall foreign investments in Romania. According to these figures, Switzerland is the 11th investor in Romania (2008). According to the Romanian National Bank, however, the stock of Swiss investments in Romania amounts to 2.191 billion EUR (31.12.2007). Finally, the Swiss National Bank gives the figure of 2.027 billion CHF (approximately 1.37 billion EUR) for the stock of Swiss investments in Romania at the end of 2008. According to these figures of the Swiss National Bank for 2008, only 0.3 percent of the overall Swiss FDI went to Romania. However, Romania has an important place as an investment destination in Southeastern and Eastern Europe (see Table 1).

Furthermore, we do not have any quantitative information about the reasons why Swiss companies invested and continue to invest in Romania. Is Romania still an “Eldorado” for Swiss investors? Or have they become more reluctant lately? What could Romania do to maintain the interest of (Swiss) investors in the Romanian market and to attract new investments from Switzerland? So far, we have only circumstantial evidence on these issues. Therefore, the Swiss Embassy in Bucharest decided to launch this research study. It was supported by the Swiss-Romanian Chamber of Commerce (CCE-R).

¹ I thank Ambassador Livio Hürzeler, Serge Gonvers, Markus Wirth and my colleagues from the State Secretariat for Economic Affairs (Seco) in Berne for their comments on earlier drafts of this report.

² Swiss National Bank: *Schweizerische Direktinvestitionen im Ausland – Länder*.

Table 1: Swiss Investments in Southeastern/Eastern Europe (in billion CHF)³



Research Questions

This report answers the following research questions:

- 1) What is the approximate overall investment of Swiss companies in Romania at the end of 2009?
- 2) Why do Swiss companies invest in Romania?
- 3) What factors influence(d) their investment decisions?
- 4) How do the Swiss companies judge the investment climate in Romania?
- 5) What can Romania do to maintain the interest of Swiss investors and to attract new investments from Switzerland?
- 6) How do the Swiss companies judge the comparative attractiveness of Romania in Southeastern and Eastern Europe?

Methodology

The methodology for the estimation of the overall Swiss investment in Romania is based on two elements:

- First, two professionals⁴ have provided us with a list of the companies they consider to be the main Swiss investors in Romania. The Embassy has, on the basis of this list and its own information, contacted the respective companies (by e-

³ Stock of FDI at the end of 2008 (Swiss National Bank: *Schweizerische Direktinvestitionen im Ausland – Länder*).

⁴ We thank Serge Gonvers (Audiconsult, Board Member of the CCE-R) and Gentiana Avrigeanu (Director of the CCE-R) for their inputs.

mail and/or fax and/or mail) and asked for their current overall investment in Romania [Question: “What is the overall estimated investment of your company in Romania (in CHF or in EUR)? Under ‘investment’ we broadly understand assets that may be physical (such as factories, buildings, machinery), intangible (such as patents, software), or financial”].

- Second, the Embassy consulted the list of the 100 main Swiss investors provided by the Romanian National Trade Registry (ONRC) and complemented the data accordingly. However, the data provided by the ONRC had to be adapted considerably, as many of the companies listed there are clearly not Swiss. Of course, it is notoriously difficult to define what a Swiss investment is and to measure it. An example: According to the ONCR, Arcelormittal Galați, Michelin and Mechel are among the most important Swiss investments in Romania. Arcelormittal Galați, Michelin and Mechel indeed have their company HQ or the HQ of their respective holding structures in Switzerland, but otherwise, there is not much Swiss about these companies. Therefore, we have concentrated on companies which have a majority Swiss ownership or are at least partially Swiss-owned and/or are traditionally Swiss-based (e.g. ABB, Nestlé).

As for the investment decisions, this research report is based on a thorough analysis of the existing scholarly literature. An anonymous questionnaire was developed and sent to 46 selected Swiss companies, among them all the big Swiss investors, in early November 2009. After three weeks, the companies which did not answer received a second questionnaire with a reminder. A total of 21 companies answered (46%).

Results

Swiss Investment in Romania

Based on the data directly provided to us by the Swiss companies, the overall Swiss investment amounts to **1.495 billion CHF** (approximately 988 million EUR).⁵ The single most important Swiss investor in Romania is **Holcim**. Holcim makes up for about one half (!) of the overall Swiss investment in Romania. Other top Swiss investors are, in alphabetical order, Expur, Intercontinental, Nestlé, Novartis, Ringier, Roche, Swisspor, Rieker, TopBrands and the companies of investor Jean Valvis. Other well-known Swiss investments are Angst, Carpatair, Franke, Heidi Chocolates, Helvetica Profarm, Inter-Spitzen and Sefar – to name just a few.

⁵ The survey took place in November 2009, so most companies have given the value of their investment at that moment.

When we also take the data provided by the ONCR into consideration – but, as we underlined above, only the Swiss investment which is clearly identifiable as Swiss –, we arrive at an overall Swiss investment of **1.673 billion CHF** (approximately 1.106 billion EUR). On this basis, **we conservatively estimate the overall Swiss investment in Romania to be at a minimum of 1.7 billion CHF or 1.124 billion EUR.**

Our estimation is relatively close to the figures given by the Swiss National Bank (2.0 billion CHF). Therefore, we have a strong case to think that Switzerland is not the 11th investor in Romania – as the ONCR indicates –, but that Switzerland is clearly **within the Top-10 foreign investors in Romania**. While these rankings have little real value and relevance, we would estimate that **Switzerland is somewhere between the 6th to 8th place of foreign investors in Romania.**

Perception of the Overall Situation and Outlook

The Swiss investors judge the **current overall investment climate** for foreign companies in Romania to be **between “poor” and “satisfactory”** (average score: 2.81, with a maximum of 6 [“perfect”] and a minimum of 1 [“very poor”]). Five companies find the situation “good”, eight “satisfactory”, seven “poor” and one “very poor”. As for the **future** [Question: “What is your outlook with regard to the overall macroeconomic situation in Romania in one year from now (end of 2010)?”], the Swiss companies have **a pessimistic to so/so mood**. Three companies are “optimistic”, thirteen are “so/so”, four are “pessimistic” and one is “very pessimistic”.

Investment Decisions

Which **investment factors** are – in general – the most important ones for the Swiss companies? We asked the companies the following question: “A number of factors influence investment decisions. How do you weigh – in general terms – the importance of the following factors for your company’s decision to invest?” (5 = very important to 1= not important at all). The top-5 investment drivers are the following (see Table 2).

Table 2: Top-5 Investment Drivers (average score)

1.	Legal stability and transparency	4.52
2.	Transparent and efficient bureaucracy	4.38
3.	Potential of the internal market	4.38
4.	Exchange rate stability	4.33
5.	Skilled labour force	4.33

For Swiss companies, **legal stability and transparency** is the single most important factor for investment decisions (4.52 average score). Also crucial are a **transparent and efficient bureaucracy** (4.38), the **potential of the internal market** (4.38), **exchange rate stability** (4.33) and a **skilled labour force** (4.33).

These results confirm that gravity factors alone – e.g. host market size or geographical factors (cf. SOVA et al. 2009: 43), such as the proximity to the source country of investment – are not sufficient to drive (Swiss) investments. Indeed, the two most important factors driving Swiss investments in Romania – legal stability and transparency and transparent and efficient bureaucracy – are **policy related**. Clearly, “the policy environment in the host country still matters” (DEMEKAS et al. 2005: 24), indeed, it matters a lot. Our findings are in line with CAMPOS/KINOSHITA (2003: 21) who have underlined that the “poor quality of the bureaucracy is found to be a deterrent to foreign investors” and that the rule of law is “an important determinant” of investments, too.

Where do the Swiss companies see the biggest **barriers for investors in Romania** [Question: “How do you judge today’s situation in Romania with regard to the following statements?”] (5 = fully agree to 1 = fully disagree) (see Table 3)?⁶ The following table gives the list of the Top-5 investment barriers. A low score means that the Swiss investors disagree with the respective statement and that they perceive this factor to be a high barrier to investments, a high score means that the barrier is perceived to be low.

Table 3: Top-5 Investment Barriers in Romania (average scores)

1.	Bureaucracy	1.57
2.	Governmental budgetary discipline	1.71
3.	Government (economic) policies	1.71
4.	Transport infrastructure	1.76
5.	Political stability	2.05

Swiss investors overwhelmingly see Romania’s **bureaucracy as lacking transparency and as inefficient** and being a hindrance to investments. In their view, the **governmental budgetary discipline is low, government (economic) policies are inconsistent** and the **transport infrastructure is highly deficient**.⁷ **Political stability is lacking**. With regard to the perceived barriers for investment in Romania, all the top-5 factors are **policy or politics related**. There clearly is a **negative spill-**

⁶ E.g.: “How do you judge today’s situation in Romania with regard to the following statements? – Bureaucracy is transparent and efficient” – 5 = fully agree, 4 = agree, 3 = so/so, 2 = disagree, 1 = fully disagree.

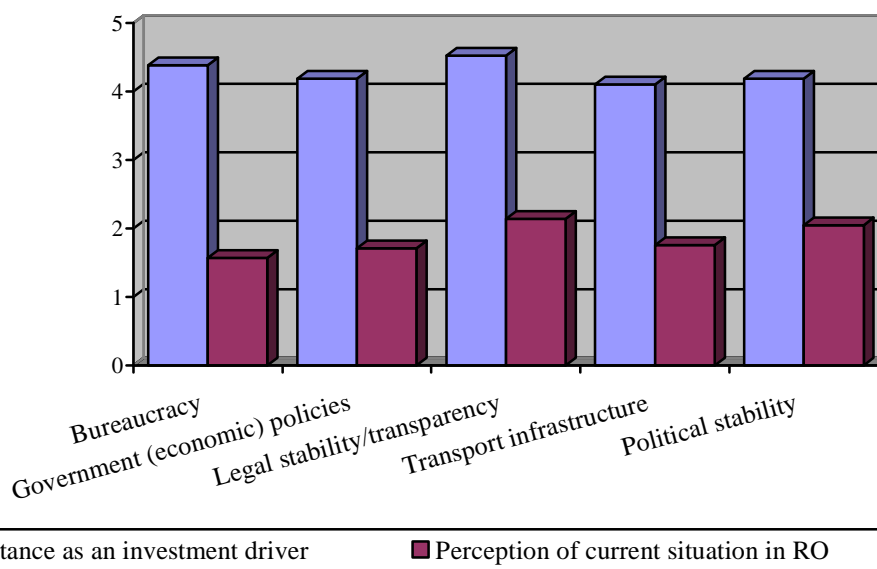
⁷ With a similar conclusion: ZÜHLKE 2009.

over effect from politics and the lack of sound policies to the attractiveness of Romania as an investment destination.

However, the perception of critical areas alone doesn't give a full picture of the challenges Romania faces if it wants to maintain the interest of (Swiss) investors in the Romanian market and to attract more investment in the future. To give an example: It is possible that a company sees the situation with regard to the transport infrastructure in Romania very negatively. But this company might not need the transport infrastructure for its business. For this company, the transport infrastructure isn't an important investment driver. Therefore, the most important and relevant information about the Swiss companies' investment decisions with regard to Romania and their possible future investments in Romania can be obtained by combining the two sets of questions on the investment drivers and on the biggest perceived investment barriers. Combining the two sets of questions allows us to **calculate the average gap between the general importance of an investment factor and the perceived situation in Romania with regard to the same factor** (for concrete examples, see text below) (see Table 4)

Table 4: Top-5 Negative Gaps (average scores)

1.	Bureaucracy	2.81
2.	Government (economic) policies	2.48
3.	Legal stability and transparency	2.38
4.	Transport infrastructure	2.35
5.	Political stability	2.14



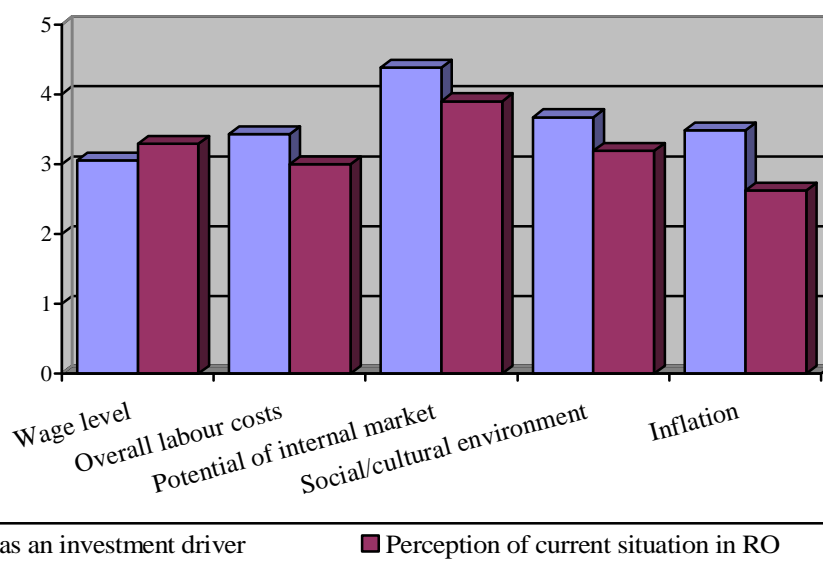
The biggest negative gap exists with regard to the **bureaucracy**. On average, the Swiss companies value the importance of a transparent and efficient bureaucracy

for their investment decisions with a score of 4.38 (maximum 5). The situation in Romania with regard to the bureaucracy, however, is judged with an average score of 1.57 (minimum 1). So the gap is 2.81 with a maximum gap of 4.00 (5 is the highest possible score, 1 the lowest). Second, there is also a big gap between the wish of Swiss investors to have consistent **government (economic) policies** (4.19) and the perceived poor quality of these policies (1.71) (gap = 2.48). Third, **legal stability and transparency** – the most important investment driver – is far from the level Swiss investors would like to see it (gap = 2.38). Fourth, Swiss investors rate the importance of a good **transport infrastructure** high (4.10), but it is seen to be in a rather miserable state (1.76) (gap = 2.35). Fifth, **political stability**⁸ (2.05) is far from where the Swiss investors would like it to be (4.19) (gap = 2.14).

But, of course, the picture isn't just bleak. Especially since 2003/2004, the accession processes to join and the integration into NATO and the EU (KARDOS 2008), the engagement of foreign investors in the real estate and banking sector and some large-scale investments (e.g. Renault, OMV), Romania has experienced a remarkable increase of the inflows of FDI. This was also due to the fact that Romania still had a **great catch-up potential** and some **positive pull factors** (see Table 5).

Table 5: Top-5 Positive Gaps (average scores)

1.	Wage level	-0.24
2.	Overall labour costs	0.43
3.	Potential of internal market	0.48
4.	Social and cultural environment	0.48
5.	Inflation	0.86



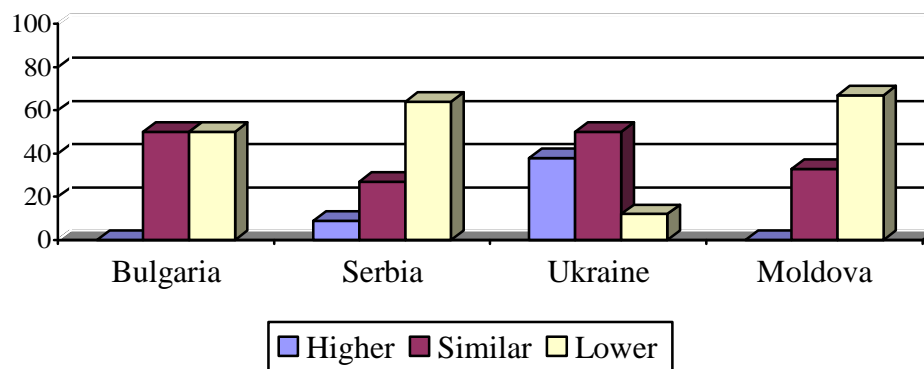
⁸ For the importance of political stability cf. BAROLLI et al. 2009; SOVA et al. 2009.

For the Swiss investors, **the most positive factor is clearly the wage level** (cf. ENDERS 2007: 119). It is even perceived better (3.29) than the Swiss investors would wish it to be (3.05) (gap = -0.24). The **overall labour costs** are still being considered to be reasonable and within the expectations of the Swiss investors (gap = 0.43) (cf. IONESCU/HASEGAN 2009). With regard to both of these factors, it has to be underlined, however, that there has been **a strong upwards pressure on both wage levels and the overall labour costs** in the last few years (PAUWELS/IONITA 2008).⁹ Furthermore, the **potential of the internal Romanian market** is seen as intact (gap = 0.48) (KARDOS 2008: 117; SOVA et al. 2009). Finally, Romania meets the expectations of Swiss investors with regard to its **social and cultural environment** (gap = 0.48) and **inflation** (gap = 0.86) relatively well.

Romania and the Regional Competition

Of course, Romania is not the only country in the region competing for FDI. Indeed, many Swiss companies active in Romania also work in the neighbouring countries, and some plan to do so. From the surveyed Swiss companies, ten (48%) are also active in **Bulgaria**, nine (43%) in **Serbia**, six (29%) in **Ukraine** and three (14%) in the **Republic of Moldova**. In this context, it is particularly interesting to look at the perceived attractiveness of these four markets in comparison with Romania [Question: “How do you judge the long-term attractiveness of these markets for your company in comparison with Romania?”] (3 = higher attractiveness, 2 = similar attractiveness, 1 = lower attractiveness) (see Table 6).

Table 6: Attractiveness compared with Romania (in %)



In a long-term perspective, Romania has to “fear” most from its Ukrainian neighbour. For well-known reasons, **Ukraine** hasn’t attracted much FDI so far (CRANE/LARRABEE 2007). If it can overcome these deeply rooted structural, policy, political and image problems, Ukraine could experience a rapid and massive inflow

⁹ Some Swiss companies also point to the fact that productivity in Romania is lower than in many European and also Eastern European countries.

of FDI. If it one day joins the EU, it could even become a very attractive destination for FDI. For the time being, however, **Romania seems to have – compared to its neighbouring countries – a strong and relatively comfortable position as an investment destination in Southeastern and Eastern Europe.** This position is also aided by **cultural and linguistic affinities**, which Ukraine, but also Serbia and Bulgaria, do not offer to (European) investors.¹⁰

Conclusions

1. **We conservatively estimate the overall Swiss investment in Romania to be at a minimum of 1.7 billion CHF or 1.124 billion EUR. While these rankings have little real value and relevance, we would approximate that Switzerland is somewhere between the 6th to 8th place of foreign investors in Romania.**
2. **The Swiss investors judge the current overall investment climate for foreign companies in Romania to be between “poor” and “satisfactory” (closer to “satisfactory”). For the short- and medium-term future, the Swiss companies position themselves between a pessimistic and so/so mood (closer to “so/so”).**
3. **For Swiss companies, legal stability and transparency, transparent and efficient bureaucracy and the potential of the internal market are generally speaking the three most important factors driving investments.**
4. **For Swiss companies, the lack of bureaucratic transparency and efficiency, low governmental budgetary discipline and inconsistent government (economic) policies are the Top-3 investment barriers in Romania.**
5. **The Top-3 negative average gaps between the general importance of an investment factor and the perceived situation in Romania with regard to the same factor are: lack of bureaucratic transparency and efficiency, inconsistent government (economic) policies and lack of legal stability and transparency.**
6. **The Top-3 positive average gaps between the general importance of an investment factor and the perceived situation in Romania with regard to the same factor are: reasonable wage levels, reasonable overall labour costs and the high potential of the internal Romanian market.**

¹⁰ I thank Serge Gonvers for this suggestion.

- 7. Romania has – compared to its neighbouring countries – still a relatively strong and comfortable position as an investment destination in Eastern Europe.**

Recommendations¹¹

- 1. Many of our findings might not surprise economists familiar with the situation in Romania and the investors themselves. Indeed, the public statements by organizations such as the FIC or different Chambers of Commerce go in a similar direction. However, this research study presents not just circumstantial evidence, but quantitative facts that should not be ignored.**
- 2. With regard to FDI, Romania has several impressive years of catching-up behind itself.¹² FDI has grown rapidly and without Romania having to do too much to attract these investments. Romania could, e.g., count on a relatively cheap and well-trained labour force.¹³ The future will be different: Romania still has a great potential, but it will have to do its homework to stay attractive, to keep investors interested in the Romanian market and to attract new investments.¹⁴**
- 3. In order to maintain the interest of (Swiss) investors in the Romanian market and to attract new investments from Switzerland, political stability and sound policies are key. Reforms have to continue.¹⁵ It is “a healthy economic and political climate” which “attracts foreign investments and it is therefore critical that political stability be maintained”.¹⁶**
- 4. It is particularly “important to further improve the business environment (as a continuation of the impressive pre-accession efforts) by strengthening the judiciary system, fighting against corruption”.¹⁷**

¹¹ Some more detailed recommendations will be made during the presentation of this report on March 1, 2010.

¹² DEMEKAS et al. 2005; KARDOS 2008; ZÜHLKE 2009.

¹³ BIRSAN/BUIGA 2009: 735.

¹⁴ FIC 2009: 1: “There still remain considerable challenges, however, linked to the economic situation and structural issues, and foreign investors remain disappointed with the pace of structural reforms”.

¹⁵ SOVA et al. 2009; ENDERS 2007: 120; GEISSBÜHLER 2007.

¹⁶ JANICKI/WUNNAVA 2004: 509.

¹⁷ KALOTAY 2008; cf. FIC 2009: 7: “Romania continues to have a very poor reputation for corruption, which tarnishes its image as an investment destination”.

5. **It is key to make the bureaucracy more efficient and transparent. Authorizations and general bureaucratic procedures have to be streamlined.¹⁸ The legal framework should be simplified. In this context, we recommend to institutionalize public consultations with the respective stakeholders on business issues, especially on planned new legislation.¹⁹**
6. **A heavy and sustained investment in infrastructure and especially transport infrastructure, a much better absorption of EU funds²⁰, more budgetary restraint and a thorough budgetary strategy and planning are needed.**
7. **A one-stop-shop with the necessary strong legal and budgetary framework for informing and supporting investors could be a positive step towards attracting, maintaining and stimulating investment.²¹**

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¹⁹ AMCHAM 2009: 3f.

²⁰ LUKAVSKY 2009: 14; FIC 2009: 47-49.

²¹ We point to the investment agencies in the Swiss Cantons with their broad mandate as a possible example. See also AMCHAM 2009: 5.

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Notes