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# **Analysis of the Situation of the Romanian Industrial Parks**

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## **1. Short history of Romanian industrial parks**

In Romania, the concerns regarding territorial projects<sup>1</sup> such as industrial parks are relatively recent. Nevertheless, there were and there are efforts for their regulation, in order to create an adequate frame for their development.

Before 1990 the most important industrial developments were the industrial platforms which usually hosted only one firm with thousands of employees. The feature of that type of development was given by the quantity and the over dimension, having as a theme in most cases heavy industry. On industrial platforms, one could notice the following: utilities supply, own railway, constructions and wide-spreading arrangements, underdeveloped roadways.

In the last decade of the past century, due to a serious lack of financial resources, some of the former platforms spaces were surrendered or sold to other firms. As a consequence the first embryos of industrial park projects appeared. This kind of situations were not based on a planned and organized long time development, on the account of unsolved property issues regarding the land and the buildings residing on the platforms. Beginning with 1998, in the private sector and especially in Bucharest, the first genuine industrial parks are initiated, some of them in fitted industrial zones which needed modernizations. Others were oriented towards agglomerating unfitted lots in the view of future industrial parks developments.

The year 2000 brings two important moments in the evolution of Romania's industrial parks. First, the governmental policy in this field begins to be sketched by a series of regulations. Second, the first infrastructural projects financed by PHARE and national funds are being conceived (nine industrial parks and one industrial zone). Between 2000 and 2001 the legal frame for industrial parks is finalized and, at local level, a few industrial park projects tend to be outlined (Bucharest and west).

Beginning with the year 2002, the first industrial parks partially financed by the "Industrial Parks Program" are initiated (as a private or public initiative), without any PHARE contribution. Most of the parks initiated before requested the "industrial park title", an instrument that brings to the parks and its members the benefit of some exemptions and eases.

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<sup>1</sup> Territorial projects are being defined as economic, technological and/or scientific complexes, different from simple industrial areas, considered as "original relational systems" between economic and/or scientific and/or university actors. (Wackermann, G., 1992, p. 28)

Until the year 2007 in Romania were initiated and/or finalized over forty-five industrial park projects out of which more than forty received the industrial park title as a result of a request or a government decision.

## **2. Short review of the legal specifications**

The legal definition for the industrial park concept is:

"The industrial park represents a delimited area in which economic activities, scientific activities, industrial production activities, services and scientific research and / or technological development valorisation are developed, in specific facilitating working conditions, to render valuable the human and material zone potential." (Ordinance of the Government of Romania No. 65/2001)

The constitution of those projects is regulated as follows:

"The industrial park constitution is based on the participative association, named association, between local or central authorities, firms, research institutes and / or other interested partners." (Ordinance of the Government of Romania No. 65/2001)

The administration (management) is realized as follows:

"The industrial park is administrated by a company created in agreement with Law 31/1990 regarding the trading companies, republished with the subsequent modifications, where the stockholders may be the associates mentioned at the third paragraph." The company is called "Administrator Company." (Ordinance of the Government of Romania No. 65/2001)

To encourage the developers of industrial parks, the law allows them to get hold of the "industrial park title" emitted by The Ministry of Development. The validity of the title cannot be shorter than 15 years. The title is automatically annulled if the park or its economic activities, scientific activities, industrial production activities, services, scientific research and / or technological development valorization are no longer realized or the title conditions are no longer fulfilled. (Order of the Ministry of Development and Prognosis No. 305/2001)

As a first observation considering the above, the legislation regarding the business parks projects is not very abundant. Also, the elements to support the creation of such projects (eases, assistance) are rather limited.

The definition induces, on one hand, the confusion between "industrial parks" and "industrial areas". On the other hand, there is confusion between "industrial parks" and "technological parks" given that the existent specifications could be assigned to any of the mentioned projects. The over extended meaning could come from the intention to insert in the industrial park category all of the territorial projects, but this approach has at least three defaults:

- It ignores the fact that industrial parks are only one form of territorial projects, with a precise meaning, used at an international level;
- It does not emphasize and it does not encourage the "multiplication" effect of such projects upon the economical and research results, due to the relations existing between the hosted entities.
- It does not mention the social implications that industrial projects could produce.

Although the legal measures meant to encourage this type of projects are more explicit than those for scientific and technological parks, the Romanian park developers consider them to be inefficient and sometimes even useless. For example, the deduction from the taxable profit of 20% of the investments amount is relevant only for the hypothesis that the developer succeeded to mobilize enough funds to put the base of the project, to make it operational and obtain profit. The other measure consisting in delaying the payment of VAT for investments (mentioned above) until the project is put in practice, could be a burden once the project becomes operational. The single real ease is the exemption from taxation in case of a change of the field destination.

The lack of a legal frame regarding the industrial parks can be noticed in the case of METAV Business Park (Bucharest). The partners have decided to dissolve the administrating society of the park to whom the title of "park" was granted. Also, the administrative role have been assumed by one of the partners, thus violating the specifications of the Government Ordinance No. 65/2001, Article 1, Line 4 regarding the creation and the functioning of industrial parks, and the specifications of Order No. 305/2001 issued by the Ministry of Development and Prognosis regarding the approval of the Instructions for the "park" title granting. Still, there was no consequence.

As a consequence, besides clearer specifications there is a need for a better monitoring of the developers' practices.

### **3. Assessment regarding the difficulties affecting the Romanian industrial parks**

Analysing the information concerning the existing industrial parks, we could formulate a few conclusions, based on what we have tried to make a few suggestions.

The information was selected from the sites of the parks, from the correspondence with park officials and from documents posted on the official site of the Ministry of Administration and Internal Affairs from Romania. The object of this analysis is to emphasize which are the main weak points of the Romanian industrial parks and to suggest that there are various methods to clear them away.

#### **Available surface**

Conclusion: The total area occupied by industrial park projects in Romania is smaller than 2500 hectares and the arranged area is of almost 400 hectares. Only half of the arranged area is already occupied by investors (buyers or tenants) and the rest is offered to new clients. The potential investor compares the figures presented above with those of similar offers from Czech Republic, Hungary or Poland, countries with thousands of hectares ready to be occupied. The Romanian offer is not

competitive at the Eastern European market scale. It must be pointed out that in comparison with international experiences, the location, the design, the general features of Romanian industrial parks often raise questions about the opportunity and the quality of Romanian projects.

Suggestion: The promoters should try to create industrial parks at a larger scale. The land should be already equipped with quality utilities, both for economical and social needs (water supply, sewers, natural gas, electricity, phone networks). Also, land improvement should include high quality roads. Consequently, clients wouldn't be forced to wait or make their own investments and they could focus on investments in specific high tech utilities or environmental facilities (waste treatments, power plants).

### ***Financial needs***

Conclusion: Industrial parks initiated by public authorities face important financial problems. They own modest resources, depend on governmental grants or local authorities' funds and on payments made in advance by future clients. Financially, the critical moment for the development of an industrial park project is represented by the initial start point of the constructions when the effort is the greatest, especially for the greenfield projects that require a great amount of funds for investments in infrastructures. The lack of financial resources both at local and central level is one of the most important impediments for the development of industrial park projects. A more aggressive management can't induce positive results in the absence of adequate funds.

Suggestion: Discussions with officials of the Ministry of Internal Affairs and Administrative Reform and with managers of existing industrial parks revealed that temporary fiscal exemptions or eases seem to be less efficient on long term than development programs or financial instruments such as grants or credit lines. Existing difficulties of parks that benefit from the "Industrial Parks Program" include high bureaucracy and long delays, which suggest that a higher flexibility is expected. At same time, the amounts allowed through the Program are obviously insufficient compared to the expectations and the needs of the project promoters and a future program should take into account an augmentation of the funds (the final stage of the present program is the year 2008).

### ***Marketing role***

Conclusion: A very small number of industrial park projects highly value the importance of marketing actions. From this point of view, satisfaction of the client is an essential condition on a competitive market and for attracting new clients. Most of the managers of Romanian industrial parks do not take into account the competition from similar Romanian projects or foreign ones. In many situations, potential clients are found by chance, without a systematic and consistent approach. Besides the fact that most of the present parks make proof of a non-perseverant orientation towards the market, its understanding and requirements, it should also be mentioned the fact that in many situations the decision to create an industrial park was not substantiated by a strict market analysis. Instead, the decision was based on a simple idea that something ought to be done anyway in order to attract new firms in the region.

Suggestion: The spirit of competition among similar projects needs to be developed through a better knowledge of their characteristics and

by comparing own experiences with those of successful promoters from neighbouring countries (organize meetings, conferences, visits; create a powerful national association; affiliate to international associations).

The Romanian developers should become aware of the necessity of an accurate analysis of the market needs and of a well-marked marketing. This premise could be achieved through a better inquiry over the possible positive effects of the future, in spite of a bigger financial effort (organize trainings and informing sessions in market research for potential developers).

#### ***Founding of park's domain***

Conclusion: A few Romanian industrial parks propose the development of high technologies. Such desideratum requires a complex process of attracting long term investments.

Suggestion: The success of such project could be assured by a close cooperation between administrative society (as a supplier of quality infrastructure and facilities), national or regional investment agencies, universities, education institutions and other entities (such as local public authorities).

#### ***Projects' location***

Conclusion: The location of industrial parks in strategic commercial areas, neighbouring important towns that benefit from a good connection to the transport network and of a competitive service offer, has been proved an efficient method to attract new investments and to disseminate economic advantages obtained towards a larger hosting region (the example of the projects located in Bucharest, Cluj or Ploiesti).

Suggestion: In order to support such approach a network of industrial parks could be created. The framework of these parks from developed towns could back up satellite projects located into less developed places, but in the economic sphere of influence of developed towns. In this case, the reasonable distances between the park and the residential zones becomes an essential condition for the workers in the satellite parks continue to live and spend their income in the same area (otherwise the migration towards the big town could occur, therefore the falling-off and the abandonment of small localities).

The location of industrial parks should be in concordance with the economical structure of the region and its development possibilities. The domain of the park should be established only when its compatibility with the characteristics of the zone are proven. An arbitrary choice of the location and of domain would certainly induce the project's failure and the false idea that industrial parks are not a viable solution for the region's development in that specific case. The availability of industrial facilities is a pre-condition in the attempt to attract and expand the investments. Private investors tend to develop projects only in central locations, with a proven demand. In less attractive locations, local authorities should have the responsibility for the creation of industrial park projects. A similar pattern - private initiative in attractive locations / public initiative in less attractive ones - is applicable for the developed countries too and not only for the developing ones.

#### ***State involvement***

Conclusion: Numerous countries which proved their capability to attract direct foreign investments for greenfield type projects (such as Scotland, Singapore, Thailand, Malaysia, Taiwan or South Korea) based their success on a strategically located industrial park network and on a close collaboration between them and the national agency. Countries like Czech Republic, Hungary and Poland have been able to offer to investors a various range of industrial parks and industrial areas, in contrast with Slovakia, Slovenia and Croatia which had limited offer, therefore limited success.

Unfortunately, Romanian central initiatives regarding industrial parks have been put into practice with great time gaps compared to other Central and Eastern European countries. Besides, the steps are small and undecided. They often speak about industrial parks when other measures to save economic entities have failed (Roman Brasov Comp. is an example, where an attempt to create an industrial park has been seen as a unique solution to replace the existent bankrupt business). Many new initiatives appear, although the existing ones haven't reached finality: they are regarded neither as successes, nor as failures. The policy is a "survival" one, without the aggressiveness and the determination for success of the neighbouring countries. Therefore, there is need to change the mentality at all levels, from the top to the bottom of the economic pyramid, for the park promoters and developers to act in a dynamic and competitive environment.

Suggestion: Central authorities have the power to stimulate the business environment by creating the proper conditions for the creation of new local businesses and for the attraction of foreign firms. For now, the legislative instability and the perpetual bureaucracy that the foreign investors face lead to the poor attractiveness of the Romanian economical environment. Strong governmental support is needed to achieve a balanced development of the territory. The support must be tailored for various levels of regional development in tight relation with the economic characteristics of each region. For example, the support for developing industrial parks around the capital city should decrease proportionally with the increase of the support for the less attractive but promising regions.

The six aspects presented above are seen as parts of a "conscious" type of management at central level.

## **Conclusion**

Although the present situation doesn't seem too encouraging, new development opportunities are meant to put an end to the inaction. For example, The Regional Operational programme 2007-2013, through its 4<sup>th</sup> Axis is ready to grant 633 millions of Euros for the development of business structures, at local and regional level. Industrial parks beneficiating of the park title are invited to apply for the funds (41 industrial parks).

The developers should explore and take advantage of every opportunity therefore initiative spirit and mentality are very important. A new analysis of the parks' situation is essential in a few years when the present actions would have generated their first results.