

FREE ZONES IN ROMANIA – SUCCESS OR FAILURE?

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Abstract: *The unprecedented expansion of free zones is considered one of the most significant economic innovations of the end of the twentieth century which covered the entire global economy. This phenomenon has also occurred in Romania, where there are six free zones. The motivation for their creation is supported by the need and opportunity for investments at regional and national level, by the valorization of the domestic natural resources and the available labor force, as well as by the encouragement of transit on the our country's territory as a source of revenue to the state budget. 20 years after the implementation of Law. no. 84/1992 concerning the free zones regime and after a series of events related to our accession to the European Union especially regarding the rise of the specific facilities, the global economic crisis and so on, we conclude that the free zones have not disappeared, as people believed, once benefits disappeared, but they have not displayed any outstanding performance either. They are still present today as any other economic agent seeking solutions to survive!*

Key words: *free zone, tax advantages, customs regime, competition*

JEL Classification: *O24, M11*

On April 28 2005, the national press headlined: “in 2011, free zones in Romania will disappear” (www.hotnews.ro). This opinion is based on the following arguments:

- from 1 January 2005, the advantage of the entrepreneurs in the free zones of paying a profit tax of only 5% disappeared, being replaced with the current tax of 16%;
- until 1 January 2011, all tax facilities from the territories with a suspense customs regime, namely exemption from the payment of customs duties, excise duties and VAT were about to disappear, according to the agreement with the European Union during the accession negotiations.

We have tackled this subject one more time only to see if, in the summer of 2012, free zones in Romania are still there and how they work in the new economic conditions.

The predictions in the 2005 media did not come true, all the six free zones in Romania, established or reactivated in the '90s currently performing their activity, but well below their potential and, of course, under the circumstances of the economic crisis!

Introduction

“Free zones are like a heart helping many countries learn how to operate economically, technically and politically in the world” (www.tehnopress.ro).

For the first time, free zones were created in antiquity and they were undoubtedly closely related to water transport taking the form of free ports, located on the main trade routes.

The first such port was Carthage, mentioned in 1814 BC and it was followed by many others located on the Mediterranean Sea, Baltic Sea (where the role of the Hanseatic League should be noted) up to ancient China. In 1860 the concept of free zone was used for the first time. It was in Italy and it was used for the town of Haute - Savoie.

At the end of the nineteenth century, Genoa, the Italian port with an unmistakable international resonance was becoming a free zone, followed by the equally important Copenhagen in Denmark and Thessaloniki in Greece. The free zone concept is a generic one. At present the specialty literature and the international documents use over 20 different terms which are recognized and associated with the idea of processing or handling of products for export (Enache, 1998).

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The 20th century was marked by an unprecedented expansion of the free zones, especially in Europe. For example, in a very small country such as Switzerland there were 19 free zones and what is amazing is the fact that there was one free zone in eight cities, two in two cities (Zurich and St. Margerethen), three in Geneva and even four in Basel.

The Danube River has not remained outside the area of interest, so, successively, free zone were set up in Belgrade, Pancevo, Budapest, Vidin, Rousse.

In Romania, in 1870 Sulina was declared a free port by the Ottoman Empire within the European Commission of the Danube, due to its favorable geographic position, at the mouth of the Danube to the Black Sea.

What can justify the authorities' special interest for these areas? We can understand if we look at the specific characteristics of the free zones, which led to an unprecedented economic and social growth. These characteristics take into account the location, the legal status which completes the subject of work and its activity, the technology transfer and the free zone administration.

Location – The free zones represent areas of the customs territory of a national state, exempted from its customs regime, where there are no import customs duties and where a special fiscal policy is applied (Enache, 1998). According to Article no. 8 from the Order No. 7394/2007 of the Vice President of the National Agency for Fiscal Administration (NAFA), free zones are part of the Romanian territory having a relatively large area, defined as the customs destination for goods in compliance with article 166 of Council Regulation (EEC) no. 2913/1992, establishing the Community Customs Code, set up by Government Decision at the proposal of the interested central and local public administration authorities, with the customs authority notice.

The areas on which free zones are positioned are not very large in terms of size, they are limited by natural or artificial borders and they usually capitalize certain transportation routes (port, airport, railway or highway) in their immediate vicinity or within their territory. These areas are directly influenced by the amount of freight traffic and the physical and chemical properties that determine certain conditions of transport and storage. Likewise, the type of activities developed inside, the buildings or other economic constructions located there, the employed workforce or the infrastructure, the natural conditions and their resources, the local economic development etc. confer special dimensions to the respective area. The worldwide statistics show that the limits among the free zones areas range from 30 to 200 Ha. (in the zones where light industry is predominant) up to 900 to 1000 Ha. (in the zones where heavy industry prevails) (Quigley, 1974).

“So we can say that the location of a free zone must take into account the closeness to the international shipping routes and the opportunity to have an appropriate structure. Free zones that have a high amount of transactions and are regarded as successful experiences in the field are always located inside or close to the sea or river ports, airports or railway junctions. The necessary water resources, the energy and other natural advantages are present in these locations. They have their storage spaces, their own means of handling and transporting goods, buildings to be rented, banks, hotels, telephone lines, faxes etc. To all of the above, we can add the well prepared, available and relatively cheap workforce” (Enache, 1998).

The legal status – should be very well stipulated by the State on whose territory the respective free zone is located and should make clear its goal and activity as well as the transfer of technology and management.

In our country, the legislation governing these areas is represented by Law no. 84/1992 on the free zones regime, amended and supplemented by Law no. 244/2004 on free zones regime and the six government decisions which established the following free zones: Galați (GD 190/1994), Brăila (GD 330/1994, amended and supplemented by GD

478/1999 and 535/2000), Curtici-Arad (GD 449/1999, amended and supplemented by GD 824/1999), Giurgiu (GD 788/1996, amended and supplemented by GD 336/1998 and 1295/2000), Constanța South and Basarabi (GD 410/1993, 191/1997 and 788/1997, with a single administration) and Sulina (GD 156/1993).

Accession to the European Union required the harmonization of the legislation, especially since the free zone concept is not very well-liked, considering the fact that it would be to the advantage of the holding states.

Through its website (www.customs.ro), the National Customs Authority refers to current regulations: Council Regulation (EEC) no. 2913/1992 establishing the Community Customs Code, article 166-181; Commission Regulation (EEC) no. 2454/1993 laying down provisions for implementing the afore-mentioned Regulation, Law 84/1992, article 6-7, amended and supplemented by Law 244/2004 on free zones regime, published in the Official Gazette 534/17.06.2004, NAFA Vice President Order no. 7394/2007 for approval of technical rules for uniform application of customs regulations for free zones and free warehouses.

The technology transfer - is in fact the main goal pursued because the free zones are practically meant to use foreign investments to achieve industrial aims (in the textile industry, food industry, electronics, chemical industry, motor industry, metallurgy of iron and steel, etc.) to respond to the development strategy of the country.

The administration of the free zone - The body responsible for that is called The Free Zone Administration and its activity is clearly governed by specific legislation of the host country. If in a country there are several free zones, all The Administrations are coordinated by a national body, with role of “Authority” (in Romania, the National Customs Authority).

Instead of conclusions and at the same time as a response to the question of justifying the existence of free zones in our country, we have Article 1 of Law 84/1992: “In order to promote international trade and to attract foreign capital for the introduction of new technologies and in order to increase the possibilities of using the resources of the national economy a free zone regime could be set up in the maritime and river ports of Romania, along the Danube-Black Sea Channel, along other waterways and in the areas near the border crossing points”.

1. A Global Phenomenon

The interest in the free zones has global dimensions. Countries on all continents support their existence, because they have demonstrated their qualities of tools and levers of economic and social development and diversification, of labor valorization, of contribution to currency through exports.

Hence, territories known by the generic name of free zones have the ability to attract business and export activities, specifically because of the multiple benefits and exemptions granted to them! They represent a good indicator of globalization since we are witnessing the accelerated relocation of industrial activities and services to cheaper areas, the development of the emerging economies and the search for solutions for competitiveness and innovation.

The evidence appears in the spectacular “World Atlas of Free Zones”, published in 2010 by François Bost at “La Documentation française” Publishing House. This paper is the result of the efforts of a team of sixteen geographers and cartographers and provides a comprehensive and nuanced image of the “free zone phenomenon”, which although it had circled the world is still relatively little known and studied. On the whole, 1735 of very different status zones were identified in 133 countries, mainly in the developing countries and in Eastern Europe and they are presented in 130 maps.

The European Union takes a dim view of free zones. However, from Romania's accession to the EU up to now, their total number (74) has remained constant with changes in the sense of opening or closing some of them in the 27 Member States. In Table 1 one can notice the comparative evolution of these entities in 2012 and 2007.

Table 1. Numerical evolution of the free zones with control type I and II

Member state	Total number of free zones – 2007	Total number of free zones – 2012
Austria	-	-
Belgium	-	-
Bulgaria	6	6
The Czech Republic	8	10
Cyprus	3	2
Denmark	1	1
Estonia	3	4
Finland	4	4
France	2	3
Germany	8	5
Greece	3	4
Hungary	-	-
Ireland	2	2
Italy	2	3
Latvia	3	4
Luxembourg	-	-
Lithuania	-	2
Malta	1	1
Netherlands	1	1
Poland	7	8
Portugal	1	1
Romania	6	6
Slovakia	2	-
Slovenia	1	1
Spain	4	4
Sweden	-	-
United Kingdom	6	2
Total	74	74

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www.customs.ro/UserFiles/File/free_zone_en_version%20010107.pdf;

http://ec.europa.eu/taxation_customs/customs/procedural_aspects/imports/free_zones/index_en.htm

On 22 December 1999, the World Federation of Free Zones - FEMOZA was founded in Geneva, Switzerland. Its purpose is to gather together free zones around the world and to represent their interests, to provide legal, technical or economic support, with priority to those zones located in developing countries.

FEMOZA relates its activity to that of the UNIDO (United Nations Industrial Development Organization). In this context, FEMOZA provides technical and training consulting as well as the support schemes and the facilitation of the transfer of know-how required for the development of the free zones; it organizes educational programs among the member free zones, either directly or through agreements with other institutions; it consolidates the free zones by means of technology transfer; it assists the free zones in matters of investments, it promotes the best management practices; it provides free consultancy guiding the staff of the new and emerging areas and it provides ad hoc

assistance; it constantly updates its own database and provides access to other international databases; it periodically publishes newsletters; it promotes programs and internships for employees; it organizes conferences and workshops in order to reduce knowledge gaps regarding the free zones and spreads information concerning the benefits and opportunities offered by the free zones in terms of industrial, commercial, financial, logistical and service activities (www.unido.org).

Another organization active in the field is the World Association of Economic Processing Zones and Free Trade Zones – WEPZA. Founded in 1978 by the United Nations, this association is non-profit, independent and aims at developing and improving the efficiency of these entities through activities similar to those conducted by FEMOZA (www.wepza.org).

In terms of the existence of specialists and of the theoretical and methodological development after the '90s, Richard Bolin and Robert Haywood are worldwide known specialists. Both of them hold important positions in the WEPZA management. They say that free zones and export processing zones will not disappear, but they will change! Likewise, both of them consider that globalization means poverty and low wages for the weak, because the rich will move their businesses from one country to another, as soon as they try to make a claim over the labor standards of their citizens. Mankind discusses several assumptions that lead to the reduction of poverty. One of these would be the development of the free zones. Even if some studies distort the image of the free zones, because they offer low-tech jobs with low added value, with low profit, with uncertainty and volatile and insecure investment environment, the two afore-mentioned experts still say exactly the contrary. Their examples are taken from Europe, where even if there are high rates of unemployment under no circumstances do they reach 30-40% as in Africa, or Taiwan, which is well connected to the world market and has higher salaries than in the European countries. In addition, they argue that today, in poor countries there are more noxious and unfair practices: the children are working, there are very poor living conditions, managers are foreigners, which means that the local people have reduced chances to professional development. A weighty argument of the two specialists is the Chinese model of the free zones. Here, beyond the developed industries and businesses, the housing conditions, the health care conditions of the personnel etc. were all created for an adequate standard of living.

2. Free Zones in Romania

Their history begins in 1829 with the Treaty of Adrianople. Since then and until now, in various forms and conditions, the towns of Brăila, Galați, Tulcea, Constanța and Sulina have contributed to the economic and social development of the country. Under various foreign dominations, under better or worse regimes, the life of these ports has contributed to the development of the national economy and was marked, in its turn, by people and events.

Without going into historical details, we present the situation in 2012, respectively, the six existing free zones created or revived after 1990, due to the enthusiasm and the huge hopes of the local and central authorities. In chronological order, these are: Sulina Free Zone - April 1993, Constanța – South Free Zone - August 1993, extended with Basarabi Free Zone in 1997, Galați Free Zone - April 1994, Brăila Free Zone- June 1994, Giurgiu Free Zone - 1996 and Curtici - Arad Free Zone - 1999.

The setting up free zones decisions in the listed areas was not accidental. On the contrary, they have been supported by a series of economic and social factors which local governments have emphasized in their motivation requests. Generally speaking these factors are:

- the existence of vast lands (even if claimed among various authorities) on which free zones could be placed; they have, either directly or in their immediate vicinity they have dense and well represented transport and communication networks, which create links with other territories;

- networks of economic agents who can develop businesses and can exploit existing transport and communication networks; thus, they count on attracting foreign capital and on the infrastructure development;

- a significant potential of labor force;

- the advantages, respectively customs, fiscal and commercial facilities offered through legislation (at the date of incorporation); they would have had to return to the Romanian state budget, but the contrary turned out true.

Sulina Free Zone. In 1978 it became a free port again. At present it has seven perimeters which consist of 100.89 Ha., with concrete port platforms equipped with everything needed for a seaport. Over time it was involved in all sorts of scandals related to smuggling activities. During 2005-2009, it became the target of wind power developers, and lately it has been claimed by Tulcea County Council to be turned into a tourist park. Specialized information is on www.azlsulina.3x.ro.

Constanța – South Free Zone. It is located in the south of the Constanța port, on 134.6 Ha. divided into three platforms. In 1997 Basarabi Free Zone was created and it functioned as a branch of the former, equipped with full range transport infrastructures, less the air one. It is located in the Basarabi port complex, on the Danube - Black Sea Channel and covers an area of 10.7 Ha. of land (of which 7.6 Ha. are port territories) and 0.7 Ha. of acvatorium. The area is especially intended for industrial processing activities. Administration of both areas is cumulated and represents in fact a subsidiary of the Constanța Seaport National Company Administration. Details can be found on www.ccina.ro, www.freezcta.ro, www.portofconstantza.com.

Galați Free Zone. It is situated on the left side of the Danube at mile 80, in the Bădălan dam area, in the eastern part of the city. It is very close to the border with Moldova and Ukraine with direct access to them and therefore it has contact with other former Soviet republics. Out of the 136.98 Ha., 6.98 Ha. represent the port area, equipped with all the necessary facilities. Information on www.zlgalati.ro shows it as dynamic, despite the economic crisis. It is the only one which provides information on income and expenditure, it is profitable even if the facilities were canceled by law, and even if it is in direct competition with Constanța and Brăila.

Brăila Free Zone. The last seaport or the first if you go on the water flow of the Danube, Brăila ensures the connection with the Black Sea and the maritime routes of the world. The 110.6 Ha. are grouped into three minizones and four perimeters located along the Danube, from the port zone to Vărsătura. Location on minizones is not unique in Romania, Sulina, Constanța and Galați are located in the same way.

There are adequate facilities for port operation. Details can be found on www.zonaliberabraila.ro. With “Balta Mică a Brăilei” Natural Park nearby, the Administration offers touristic routes by boat on the Danube, as a way of diversifying activities.

Giurgiu Free Zone. It covers an area of 160 Ha. As it is revealed on www.zlg.ro, what distinguishes it from the other free zones in Romania is that it has a predominantly industrial profile, operating since the founding of its production units. In addition, it has an advantageous position on the border with Bulgaria and benefits from the existence of the only bridge over the Danube, which establishes the connection with the southern continent. It is the most profitable but nevertheless, the media reported that it has been and it is affected by the crisis, the most visible indicator being the technical unemployment of the personnel in the area.

Curtici – Arad Free Zone. It is the most recently established, in 1999. Its 90 Ha. are near the rail corridor no. 4 (Berlin - Istanbul/Thessaloniki) and, even more, perimeter no. 2 is located in the Arad International Airport. Besides the legal businesses illegal ones developed as well. For example, only after an unmasking operation performed simultaneously on 5 July 2012, at Curtici and at Agigea 60 million cigarettes, respectively 3 million packets (www.aradon.ro) were confiscated. Unfortunately, such operations are meant to avoid the payment of taxes to the state budget by hiding the taxable source. References are available on www.zla.ro.

3. SWOT Analysis on the Free Zones in Romania – An Image of Performance

The SWOT analysis is a very simple and easy to apply method, providing a deep understanding of the potential and critical issues that may affect an entity. Its powerful qualitative character allows the formulation of a diagnosis on the past and present condition of an organization or its functional areas (management, marketing, sales and distribution, research and development, production, finance, human resources). Based on the answers to the problems above, it outlines its medium and long term development perspectives.

From a theoretical perspective, everybody knows that the word SWOT is the acronym for Strengths, Weaknesses, Opportunities and Threats, the first two characterizing the internal situation of the analyzed entity and the other two reflecting the impact of the external environment upon that entity. “Diagnosis by means of the SWOT analysis can be defined as a complex research of economic, technical, sociological, legal and managerial activities that characterize a company that identifies strengths, weaknesses, opportunities, threats and the causes which generate and/or will generate them and make recommendations to eliminate or minimize the negative aspects and/or recover the positive ones. By means of the SWOT analysis, changes can be anticipated and the optimal strategy can be developed and implemented in order to ensure the prosperity of the company” (www.humanistica.ro).

Exploiting public information about the free zones in our country and their activity we can shape an image, an organizational diagnosis (albeit partial) of the level of development reached after about 20 years since the establishment of the first free zone.

3.1. Strengths

- a strategic geographical location of the six free zones, on important trade routes, on shipping, rail and road lanes which connect Europe and other continents;
- their setting up initiative has received a strong support from local and national authorities, which perceived them as some development poles of the areas where they operate;
- diversified economic activities which do not generate competition; for example, in Galați there is a technological park and in Brăila there is a logistics and production center;
- the existence of distinct skills for management, organization or personnel training;
- appropriate infrastructure;
- a favorable overall image, although there were some illegal activities with the purpose of avoiding payments to the state budget;
- reduced costs, especially of the labor force;
- the development of alternative activities (tourism in Brăila and wind energy in Sulina);

3.2. Weaknesses

- insufficiently valued human and material potential and resources, which drew a lack of financial resources and record losses;

- the record of attempts to use the advantages offered by these areas for fraud and tax evasion;
- the lack of reaction or the low speed response of management and authorities to the changes in the internal and external environment, which resulted in the fact that some operators left the areas;
- the public information is not always updated, the sites contain information that seems old and sometimes contradictory; the activities of the operators in the area are not well highlighted, which can create confusion about their intensity and timeliness;
- the attention to current problems due to the crisis; the public information about the medium and long term strategies cannot be found;

3.3. Opportunities

- the success of those countries which provided real economic development opportunities can be a model to follow;
- the interest shown by companies outside the European community;
- looking for solutions to overcome the crisis of the economy and organizations;
- lower costs offered by our country in comparison with other countries;
- the possibility of vertical integration and exploitation of natural resources and local raw materials as well as local infrastructure;
- although competitors, they can make advantageous partnership and collaboration contracts;
- the exchange rate which is favorable to exporters;

3.4. Threats

- the competition of the free zones of non-EU countries (Moldovia, Ukraine, Turkey, all with access to the Black Sea); the most recent threat comes from Moldovia, where in the first half of 2012, the sales of products in the economic zones with special status increased by 9.4%. According to a Ministry of Economy report, the investment in FEZ in the last six months reached about 9 million \$, the highest level of the last five years. (www.adevarul.ro);
- the direct competition among the different zones (eg. Brăila and Galați, with similar conditions are located about 20 kilometers of each other);
- the global and national crisis;
- the legal regulations which do not offer any tax advantages and other privileges and damage the competitive position;
- tax and customs advantages offered by the administrations returned to the budget only in a small proportion;
- the European Union legislation which does not encourage their operation;
- the unfavorable demographic exchange and the labor migration to better paid jobs;
- the insufficient international promotion;
- the political instability.

Conclusions

The national economic and social context has changed very much in the last 20 years in Romania. From progress to regression, from growth to decrease, from years with profit to years with losses, they have all been present.

Like the economy in general, free zones have been subjected to strong influences and fluctuations of the main indicators. Therefore, it would be hasty and unfounded to draw conclusions or to state categorically that the evolution of free zones can be assigned to any known model. But the answer to the question regarding their existence after 2011 can be given: not even one of the six free zones in Romania has disappeared and they seek

solutions to survive. However, they have not a well-established strategy and the state seems to have forgotten them.

Free zones are another example of half-measure to which the national and local administration has accustomed us. From its own initiative or sometimes forced, the national and local administration created the conditions for the numerous necessary and binding activities, but on the way to their evolution and development, the administration left them to handle by themselves!

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