Master Thesis

The impact of inward Foreign Direct Investment over host countries' economy: Dacia Renault acquisition case in Romania

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Summary

The interest of academicians and business people regarding foreign direct investment increased especially after World War 2, when the openness to trade and globalization raised significantly. Today, the competition goes beyond a country's borders and if firms want to succeed on long term, they need to have a global mind set and focus on innovative activities.

In Europe, there has been for a long time now a certain degree of discrepancy between developed countries and emerging ones, depending on their location under the Iron Curtain or not. In 1991, after the collapse of USSR, the former communist countries started their transition from central planned economies to free market system. The easiest way for them to integrate into the global market trend was to attract as much FDI as possible by lowering trade barriers, tariffs and custom duties and formulate more investment-friendly policies. On the other hand, Western countries saw a new market opportunity and a cheaper, but educated work force that made transition countries attractive locations to invest.

The largest share in the FDI undertaken worldwide is occupied by mergers and acquisitions (M&As) transactions accounting for more than 85% of all international direct investments (OECD, 2000; UNCTAD, 2011). The same stands true for transition countries in Europe, which were forcedly industrialized and didn't correspond to market requirements after 1990 anymore. Thus, the majority of FDI performed in former communist countries are acquisitions of previously state-owned companies in different industries like natural resources, telecommunications or manufacturing.

The purpose of this paper is to assess the impact of inward FDI on Romania as a host country for many investments done in the region after 1990. The level of analysis is the auto industry as this is the most fast-growing sector of the Romanian economy and in addition is the driving engine of the European development as well. Moreover, the automotive industry is among the main industries facing a large number of M&As globally. In particular, the unit of analysis for the impact of FDI on the macroeconomic environment in Romania is the acquisition case of the former state-owned company – Dacia by the French producers from Renault. The emphasis is put on the post-acquisition effects, Dacia Renault being today the biggest company of Romania in terms of turnover and the biggest exporter of the country.

Research was conducted by analyzing different sources of secondary data and the paper is structured with the objective of constituting a descriptive investigation. A quantitative approach

on the matter is adopted and the objective of using many distinct sources of data was to gain a better understanding of the case under investigation, by analyzing it from different points of view. The findings show that Dacia was the most successful privatization of the post-communist era, with positive spillovers over the local community, Romania's exports, economic growth and the proliferation of the auto industry. However, improvements in infrastructure, better law enforcement and other changes are needed in order to keep the investors in the country and attract more in the future. Even though Romania might not be so affected by the current migrant crisis and war threatens, the brain drain phenomena and the distrust in the political class are systematic risks that can't be ignored and need a different approach to deal with them.

Yet, international rating agencies and organization's reports like World Economic Forum's 2015-16 Global Competitiveness Report place Romania on the third place in terms of competitiveness in the emerging and developing Europe, with positive and stable outlook for the future. Moreover, it is predicted that in 2016 Romania is going to outperform the other CEE economies in terms of growth and will be the second fastest growing economy in the EU after Ireland.

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Introduction

Foreign Direct Investment (FDI) is a well-known and researched business phenomenon nowadays. Lately, it has been impossible to ignore the opportunities that globalization comes with and investing a high amount of capital overseas is one of them. It seems now easier than ever, with the IT and all technological developments to which we can add the homogenization and internationalization of markets, to conduct operations in a foreign country.

Usually, the dominant actors on global markets are the Multinational Corporations (MNCs). Multinational corporations are always in competition one with another in their pursuit of extending firms' operations, having as 'battle-field' the international markets. Their managers are faced with the dilemma between choosing to export to other countries or to open a production facility abroad. Another decision they have to make is whether to develop a new product internally and conquer a different market by themselves through green filed investments or if they should buy another company that has already a well-established position in the target market, case in which an acquisition transaction seems more suitable.

For a long time, the trend was that developed economies from the Western world were the lead actors in conducting FDI. Either they were investing in other developed countries, either in less developed ones, the Occidentals hold the know-how and most multinational corporation were coming from US and Western Europe. In their quest for continuous growth, searching for new markets or cheaper labor costs, the custom was that capital flew from Western to Eastern countries and Northern to Southern ones (World Bank, 1995). However, lately, another interesting phenomenon was observed. Namely, emerging economies undertake foreign direct investment in other emerging economies and the most pregnant example is the case of China. Chinese corporations, beyond investing in developed economies, they also invest a lot in low-income countries. If in the mid-2000s the Chinese investment in EU was close to zero, in 2014 it reached the impressive number of 14 billion Euros: 'Outbound Foreign Direct Investment (OFDI) by Chinese companies now exceeds $100 billion per year and has shifted from natural resources in developing countries to technology, brands, real estate and other assets in advanced economies' (Hanemann and Huotari, 2015, p.5).

Emerging countries are considered also the ones that for more than four decades were under the dominance of USSR (Union of Soviet Socialist Republics) and didn't have the opportunity to develop at the same pace with Western countries. Once with the end of Cold War and the breakup of USSR in 1991, a new political and economic reality stroke the former communist countries from Eastern Europe that had to switch from a planned and centralized economic system to a free market and more capitalist-oriented one. Thus, these countries are regarded as transition economies and they see inward FDI as an opportunity to integrate into the global market place and due to potential technological spillovers, to sustain their countries' economic development. Furthermore, foreign companies are mostly perceived as positive economic agents that could set higher environmental standards and improve the social condition of domestic markets through MNCs Corporate Social Responsibility Programs (Kastrati, 2013).

The purpose of this paper is to see what is the impact of inward FDI over Romania's economy, as part of the transition bloc, having as level of analysis the automotive industry. Over the past 26 years, the country has faced many changes in its' economic system, from privatizations of state-owned companies to many incoming investments from foreign enterprises and the proliferation of an IT-guru generation that is now the most promising asset Romania can export and trade.

Among the most notable investors in Romania, the automobile and automotive companies are in top three. Besides the Americans from Ford, that hold a production facility in one of Romania's southern cities – Craiova, we can also mention the French Group Renault, which from 1999 bought the majority shares-pack from the former state owned auto company, Dacia. Since then, the Romanian-French producers developed and grew year by year, becoming in 2015 the largest exporter of Romania with 481.840 cars sold outside the country (Capital, 2015).

With this scenario in mind, the aim of this study is to reveal the effects of direct investments made by foreign companies in Romania, having as guidance the following research objectives:

1. What are the upsides and downsides of inward FDI in Romania?
2. Which are the positive spillovers observed from the acquisition of Dacia by Renault Group?
3. What can be improved in Romania's policy in order to attract future FDIs?

The paper starts with a Literature Review, where the reader can see a brief enumeration of all the important theories of trade and investment over time. Then, with this broad picture drawn in mind, the same Chapter brings a more in depth evaluation of what inward Foreign Direct Investment means. Afterwards, the focus is switched to FDI in Central and Eastern European countries and Former Soviet Union only. Research Methodology comes after in Chapter 3, offering a better understanding over how the study was conducted. Then, in Chapter 4 is analyzed the FDI history in Romania, followed by Chapter 5 where the acquisition case of Dacia-Renault Group in Romania is detailed. Chapter 6 discusses what can be done to improve the attractiveness of Romania for future foreign investors, and lastly, Chapter 7 addresses the Implications of the thesis for different economic agents. The paper ends with a Conclusion and Limitations discussion.

Chapter 1. Literature review

The topic of foreign investments and cross-national exchanges was given a lot of attention by practitioners over time. Before diving more into the topic of this study, a brief summary of all important theories and practices related to FDI at macroeconomic level will be presented, as discussed in the literature. The objective of this timeline review is to see what could be a country's advantage in order to attract foreign investors and how did the perceptions on the motives to conduct international business changed over years.

1.1 Trade, investment and internationalization theories over time

Classical Trade Theories

Going back in time, theories of international trade and investment were formulated centuries ago. Considered by many scholars the foundation of market economy and capitalism, the work of Scottish philosopher Adam Smith "The Wealth of Nations" in 1776 highlighted, among other things, the fact that nations should specialize in producing a good where they hold absolute advantage. Thus, they would trade the surplus of what they produce with other countries and hence they would import goods for a smaller price rather than produce them at home for a higher price and with more resources (International Business Theories: Theories of Trade and Investment Presentation, Session 2A by Associate Professor Dr. Svetla Marinova, Aalborg University 2014).

Later on, in 1819, David Ricardo comes with the Theory of Comparative Advantage in trying to explain the trade between countries. Briefly, his theory states that if a country has an absolute advantage in producing two different products, it is still not a perfect equilibrium between the two products. Thus, one country should specialize in the production of that one product which it is able to manufacture it more efficiently (ibid).

In summary, these 2 classical theories describe the behavior of countries in regards to cross-national trade. A country will produce goods and services in which it has an advantage over other countries, for indigenous consumption, and will export the surplus. Thus, for goods and services where it has a disadvantage, imports come in handy. Advantages/disadvantages were considered to come mainly from resource endowments, labor, capital, technology or entrepreneurship (Morgan and Katsikeas, 1997).

Factor Proportion Theory

Then, in 1933, Eli Heckscher and Bertil Ohlin developed what we know as the Factor Proportion Theory. The theory assumes that the major difference between countries is the abundance of capital and labor. Hence, capital-intensive countries should specialize in producing capital-intensive goods. On the opposite, labor-intensive considered countries should specialize in producing more labor-intensive goods. Theoretically, the more capital-intensive economies were thought to be the developed countries and labor-intensive – the developing countries (Morgan and Katsikeas, 1997; Marinova, 2014). However, neither one of the theories was able to explain the more recent patterns of internationalization. After the Second World War, Europe started a post war reconsolidation, aided by the United States, plan known as *European Recovery Plan* or the more popular *Marshall Plan* (https://ro.wikipedia.org/wiki/Planul_Marshall). The years that came, brought substantial technological progress and the proliferation of more and more multinational corporations (Morgan and Katsikeas, 1997).

Product Life Cycle Theory

Thus, in 1966, Raymond Vernon came with the Product Life Cycle theory, which aimed at explaining in other way the international trade behavior. Shortly, his theory emphasizes more on "the timing of innovation, the effects of scale economies, and the roles of ignorance and uncertainty in trade patterns." (Vernon, 1966, p.190). The product life cycle theory suggest that early in the product's life, everything related to the good's production (materials, labor) will be of indigenous provenience. Later, as the product becomes present on more international markets, the production shifts from the parent company to its subsidiaries around the world and finally everywhere where it can be produced with minimum costs. Many times the product comes back in the country of origin as an import. What is also emphasized in Vernon's theory is that innovation derived from technological progress is essential for developing new products, while the size and structure of the new markets will influence the type and degree of international trade between two countries (Morgan and Katsikeas, 1997).

Market Imperfections Theory

Four years after Vernon, Stephen Hymer draws the attention on the Market Imperfections theory. This theory developed in 1970 briefly proposes that companies' desire to invest overseas depends on the different competitive advantages that foreign firms might develop overseas and

which are not to be shared by competitors in the targeted countries. Due to market imperfections, these competitive advantages for products and factors of production will differ from country to country (Morgan and Katsikeas, 1997).

Although the number of studies on the topic of FDI and internationalization is by far more numerous than that, the idea of this time-travel inquiry was to show that researchers have tried for ages to understand and explain what drives firms to engage in international operations, may them be cross-border trade, exports, licensing, greenfield investments or mergers & acquisitions.

In the following sections, the focus will shift to Foreign Direct Investment only, based on the findings of other researchers that studied the same topic.

1.2 The topic of Foreign Direct Investment in literature

In general terms, the topic of FDI is strongly related with globalization and multinational corporations, the latter being considered the main drivers of capital flows between countries. As for any theory in the academia that has proponents and opponents, the subject of FDI is no exception. On one side, the supporters argue that FDI is an efficient instrument to reduce poverty and transfer knowledge to less-developed countries, while achieving lower production costs for investors. On the other side, the opponents claim FDI is leading to higher unemployment for home countries of investments and brings an increased interdependency among nations, which directly translated into higher risk spread between countries (Protsenko, 2003). Either one agrees or disagrees with the idea of FDI, the reality shows that nowadays it is impossible to ignore the phenomenon. Technological developments that lead to cheaper communication tools, increased international competition due to markets deregulation and higher work force mobilization, made companies to diversify their activities and look for new market shares all over the world (OECD, 2011).

In this chapter, types of FDI will be presented, the main reasons that drives companies to invest in other cross-border markets and what is the impact of FDI on home and host countries. There is another category of long-term private international capital flows which are loans granted by financial institutions to governments, but they are not the object of this study so no further reference will be made regarding this type of investment.

According to Hymer (1976, p.1) it is important to make the distinction between "long-term private international capital movements – direct investment and portfolio investment". What differentiates the two is the degree of control involved. A direct investment is considered when the investor directly controls the organization where he invested his money into. On the other hand, if the investor does not control the enterprise, we talk about portfolio investment. When adding 'foreign' to direct investment, it means that a company located in a certain country called home country directly controls another company(ies) located in a foreign country, usually called host country (Hymer, 1976).

His definition is in line with the OECD's (2011, p.17) definition for FDI which states the following: 'Direct investment is a category of cross-border investment made by a resident in one economy (the *direct investor*) with the objective of establishing a lasting interest in an enterprise (the *direct investment enterprise*) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise'. By significant degree of influence and lasting interest, the Organization stresses that the investor should own at least 10% of the voting power in the targeted company.

1.2.1 Motives that lead to different types of FDI

The motives for conducting FDI are quite diverse. At the basis of the motivation stood the desire of investors to ensure the safety of their investments by seeing if their assets are prudently used. This reason is denominated by Hymer (1976) Type 1 of direct investment. It is assumed that the likelihood of entrepreneurs to undertake dangerous projects and exhibit opportunistic behaviors is lower if he/she has money invested in that particular project.

Moreover, in international transactions, the distrust among parties is even higher so they have a higher need to control the investment (Hymer, 1976). The second type of investment according to the author is International Operations and this time, beyond the desire to control that assets are carefully used, stays the desire to remove foreign competition and benefit from the returns on specific skills and abilities of host countries (Hymer, 1976). Also, market imperfections, the desire to diversify one's products, international competition and the ever

changing environment (the formation of regional trade alliances) are strong forces that determine companies to consider and further invest abroad (Barrell and Pain, 1997).

From the motives that drive foreign investors to undertake certain projects, types of FDI can be drawn. First type of FDI is *market-seeking* FDI. Also known as horizontal FDI, due to it's characteristic of duplicating foreign firm's production facilities in other countries, the purpose is to better serve local and regional markets around the world. One of the main drivers of this kind of investment is the market size of the host economy and its' potential growth. As different obstacles like trade barriers, tariffs and transportation costs might impede the efficient serving of the chosen markets through exports, market-seeking FDI is preferred instead (Campos and Kinoshita, 2003; Dunning, 1988).

A second type of FDI comes in the form of *resource-seeking* investment. Either those resources are natural resources, raw materials or lower labor costs, the condition for this FDI to happen is that desired resources are not available in the home-country of the investing firm. Thereby the firm looks for these resources somewhere else. This type of FDI arises frequently in the manufacturing sector where MNCs invest in another country with the aim of further exporting from that host-country. In contrast to horizontal FDI, resource-seeking FDI is considered to be vertical because of the segmentation of production along the value chain. As main drivers one can mention low labor costs and natural endowments of countries like oil or gas (Campos and Kinoshita, 2003).

Derived from resource-seeking type of FDI, *strategic-assets seeking* type emerges. MNCs are searching for key capabilities worldwide that could protect and enhance their global competitive position. Included in their strategy might be to acquire local R&D, human capital or well-established domestic firms that hold local market knowledge. Moreover, acquisition decisions of indigenous firms can arise in order to prevent competitors to gain market share (Marinova, 2014)

Fourth, MNCs are looking for economies of scale and scope and if these goals are to be achieved by geographically dispersing firm's activities, this is considered to be an *efficiency-seeking* FDI. Having economic operations spread across borders, companies can take advantage of smaller factor and product prices and also to diversify risks. One example is the case of EU adhering transition countries in 2004 (Czech Republic, Estonia, Hungary, Poland, and Slovenia)

which attracted more efficiency-seeking FDI after the announcement of joining EU was made (Campos and Kinoshita, 2003).

Home and Host Government incentives and policies regarding FDI are also important determinants, but are not the primary motives of companies' decisions to invest abroad. Government regulations are mainly related with location selection, after the decision to invest in other countries was already made. Tax advantages, deductions, subsidies and possibility to repatriate the company's profits are some of the variables that can influence MNCs decisions regarding a certain location (Anil et.al, 2011).

1.2.2 Outward and Inward FDI

There is another distinction made between types of FDI, depending on the providers and receivers of the investment. Outward FDI is concerned with the investments made by a certain country into other foreign markets while inward foreign direct investment is the investment made by a foreign company (ies) in a specific country (OECD, 2011). In the literature, this taxonomy is usually presented along with home and respectively host countries impact of FDI.

Outward FDI

The early studies of outward FDI were made in US as this country was the major outward direct investor after the Second World War. The 1960s are characterized as a turbulent period for American foreign investments because people were worried about the balance of payments and how outward investment would affect domestic employment and exports (Lipsey, 2004). Later, Swedish scholars investigated the effects of FDI on investors' home countries and, the majority, found no to positive relationships between outward FDI, parent company exports and overall growth of the company (Lipsey, 2004). The same positive results were found also for Japanese multinationals. The interpretation of the studies' results was that there is no general pattern available which would conclude that if one type of investment is carried on, it will lead to exports reduction or increase. Although some might say that exports would be substituted in the home country by horizontal FDI and vertical FDI would increase home countries' exports, there is no clear evidence for that.[1] One of the reasons is that even if they would be substitutes

during manufacturing process, the other product-related services and activities are carried out in different ways in the home and host countries. The foreign operations in host countries depend also on the countries' infrastructure and stakeholders network that is particular and distinct to each company (Lipsey, 2004).

Lipsey (2004) in his study of Home- and Host-Country Impact of FDI, raises the difference between home-country exports and home-country multinationals' exports. For instance, in the case of US, evidence showed that from 1966 until 1987, the share of US world exports declined from 17 to 11%. However, in the same period of time, the MNCs based in US plus their foreign affiliates kept a stable share of world exports. As explanation, Lipsey (2004, p.344) states that: 'The U.S. multinationals retained their shares of world exports, while the United States as a country was losing a large part of its share, because the multinationals' share depended on their firm-specific advantages, and the multinationals could exploit their firm-specific advantages by producing in other countries'. Moreover, these results were not limited only at US. In Japan and Sweden, empirical studies showed the same habit: When the country's share of exports declined, the home-country multinationals' share of world exports remained stable or even increased and in case of Japan, they actually off-set the country's decrease in exports share (Lipsey, 2004).

As a conclusion to these observations can be mentioned the fact that multinational corporations use foreign production not only to exploit their firm-specific advantages, but also as a means to protect their market share against disadvantageous home country policies like increasing taxation, currency depreciation and exchange rate risks or appreciation of home country wage levels (Lipsey, 2004)

Blomstrom and Kokko (1994) assess the impact of outward FDI of Swedish MNCs on Sweden's economy. The country has had a five times larger flow of outward FDI than inward FDI and moreover, national firms have a dominant position in Sweden, with more than half of manufacturing employment engaged in domestic owned firms. Swedish corporations established foreign operations in order to reduce transportation costs, entry barriers, be closer to their customers and have access to foreign raw materials. Also the foreign production and employment is shared by a number of 20 Swedish MNCs which account for 90% of all foreign operations (Blomstrom and Kokko, 1994). During 1986-1990, while the number of employees in

foreign affiliates increased with more than 450.000, the share of production in Sweden decreased below 40%.

By reviewing other studies made for Sweden, Blomstrom and Kokko (1994) exemplify that the results of these studies generally reveal positive effects of outward FDI on home country. The reason is that foreign market share of Swedish firms increase, thus they export more intermediate products to their foreign affiliates. Also, these affiliates have to pay higher loyalties and license payments which increases the parent company's cash flows. In this way, parent companies can reinvest their profits into Research & Development or Marketing activities 'The impact of FDI on the home country may be beneficial if production processes with high profits and positive externalities are retained at home, but effects are likely to be less advantageous if these are among the activities that are moved to foreign affiliate' (Blomstrom and Kokko, 1994, p.20).

Further, FDI appears to be complementary to Swedish exports and employment and not substitute. Even though home country exports are substituted up to a point by foreign production, the effect is not that significant because the advantage of market proximity gives foreign affiliates the chance to take over higher market shares than it would have been possible for the parent company to achieve only through exports (Blomstrom and Kokko, 1994).

Inward FDI

If in the past, countries were more reticent to foreign investors and perceived high taxes or had restraining policies towards incoming FDI, lately governments' actions shifted to a more investment-friendly attitude, thus lowering entry barriers, providing fiscal incentives for MNCs and open up new sectors which used to be closed for foreign organizations (Blomström & Kokko, 2003; Gorg and Greenaway, 2003). For example, the government of UK paid an estimated amount between 30 000& and 50 000$ / employee to Samsung and Siemens to attract them in the North-eastern part of England in the 1990s (Gorg and Greenaway, 2003). This has led also to the rise of international and regional trade liberalization and the proliferation of trade and cooperation organizations and acts like WTO (World Trade Organization), GATT (*General Agreement on Tariffs and Trade), EU (European Union) or NAFTA (North American Free Trade Agreement)* (Blomström & Kokko, 2003).

Today, inward FDI is generally seen as a tool for emerging countries to develop and grow. MNCs from developed countries are perceived as economic entities that possess superior technology, strong management skills and practices that could be transferred to domestic firms or imitated by them. (Zhang et.al. 2010; Blomström & Kokko, 2003; Lipsey, 2004).

1.3 Spillover Effects from Foreign to Domestic Owned Firms in Host Countries

An additional reason for which countries, especially developing ones, seek to attract foreign investors is that, beyond the new capital brought once with the investment, Governments hope that the presence of foreign entities will positively influence local companies as well. According to BusinessDictionary.com, a spillover is 'A secondary effect that follows from a primary effect, and may be far removed in time or place from the event that caused the primary effect'(businessdictionary). There can be both positive and negative spillovers. One example of negative spillover from an economic activity is factories' pollution upon the residents of the surrounding area of the plant, which is regarded as an undesirable externality.

Zhang et. al (2010) in their paper which addressed Chinese manufacturing plants 'FDI Spillovers in an Emerging Market: The Role of Foreign Firms' Country Origin, Diversity and Domestic Forms' Absorptive Capacity' enumerates four main mechanisms found in the literature that suggest how spillovers from foreign firms could affect domestic owned ones.

The first one is a *demonstration effect.* Local firms, by being exposed to a range of foreign companies, can observe their activities, their technologies and management practices. Then, indigenous firms would try to imitate MNCs and include in their daily routine the practices observed at foreign owned enterprises, which could in turn increase their productivity.
As Zhang et. al. (2010, p. 969) put it: 'These so-called 'spillovers' are defined as positive externalities that benefit domestic firms with the presence of FDI, which can result in productivity increases among domestic firms'. And so, we move to the first positive externality of FDI on host countries, which is considered to be the higher productivity of indigenous firms (Lipsey, 2004; Kokko, 1993).

In Mexico, studies showed that foreign presence in an industry had a positive effect on the labor productivity of domestic owned plants. However, the results were mostly available where the level of productivity of local owned firms was close to the productivity level of foreign firms. On contrary, if there are large technological gaps between foreign and domestic firms, spillovers were discouraged (Lipsey, 2004). The higher productivity could be a consequence of greater capital intensity that MNCs possess, their larger size or their more efficient use of inputs.

Although the majority of studies report positive spillovers from foreign to domestic owned companies in labor productivity, the difference in results is attributed to the type of data used for measurement. Thus, distinctions can appear in studies that use cross-sectional data compared to studies where panel data was used. Still, other factors that influence the results are the absorptive capacity of local firms, the characteristics of each industry and the different policies and capabilities of each country (Lipsey, 2004; Zhang et. al., 2010).

Moreover, in developing countries, the measurements of productivity rely also on capital markets' data. But this data might be biased, as these countries don't have a stable and mature capital market. In addition, for firms operating in a protected market because of the government's policies or in a monopoly, results might appear contradictory again (Lipsey, 2010). The same author clarifies (pag. 365): 'if a firm operated in a protected market because it was government owned or because it sold to the government, or because it sold to its parent, or because competition was limited in other ways, its value-added output measure would be inflated. Similarly, a firm earning monopoly profits would appear to be highly productive even if wages were not inflated, because value-added would be inflated. Thus, for example, if the entry or growth of foreign-owned firms broke up a local-firm monopoly, the decline in local-firm monopoly profits would appear in the data disguised as a decline in their productivity resulting from foreign entry'.

Returning to spillover opportunities, the second modality in which host-country' firms could benefit from FDI is by *building domestic linkages* with the foreign firms. The multinational company engages in backward relations with local suppliers and forward relations with local distributors (Zhang et.al., 2010, Blomstrom and Kokko 2003). Yet, there are studies that reported negative effects of FDI on upstream industries in the host country. The explanation was that foreign companies chose to import intermediate goods rather than buy them locally, thus decreasing the output of domestic firms which in turn yielded to a lower domestic

productivity. Still, in downstream industries was not observed any negative change (Lipsey, 2010). However, positive spillovers can be encountered for those local firms that use the same network of suppliers and distributors as the foreign firms when knowledge is transferred within the network (Zhang et.al., 2010).

A third mechanism that allows spillovers to produce is *employee turnover*. There can be employees from the foreign firm that later on will take jobs in local firms. Thus, they might apply at their new work place the knowledge and practices acquired inside the MNC. This applies also for the employees that have previously worked for domestic firms and switched jobs at the foreign firm when this one set up locally. After a while, the employees might return to work for domestic owned firms or they might open themselves a new business where they can use the experience gained at the foreign owned firm (Zhang et.al, 2010).

The fourth and last major mechanism enhanced by the presence of FDI is the *increased competition* among domestic firms, either in the same industry where the MNC operates, either in other industries. Multinational companies, due to their state-of-art technology and know-how, usually produce high quality products. In order for these high standards to be met, they require qualitative intermediate products they (ideally) buy from the host countries. Hence, the competition between local firms increases, in their desire of becoming MNCs suppliers. The increased competition can lead to new products development and innovation and this is just one example of the positive spillovers that inward FDI has over host countries economic environment. Furthermore, this shows that the spillover effects go beyond the industry where the

MNCs operate and affect also the supplying industry (Lipsey, 2004). Increased competition could also force domestic owned firm to update their technologies and adopt superior management activities in order to remain competitive (Zhang et. al., 2010).

A significant thing to be mentioned here concerns local firms' capacity to accept the change in their market place and learn from foreign owned companies. In the earlier literature it was assumed that increased productivity of host countries' firms happened as a consequence of the presence of MNCs. But their presence won't affect by default local firms in any way, unless local firms are also willing to learn and innovate in order to successfully compete MNCs and lead to a more competitive business environment locally (Lipsey, 2004).

1.3.1 Wage and Productivity comparisons

The impact of inward foreign direct investment over host countries was studied by numerous scholars. In his paper 'Home- and Host-Country Effects of Foreign Direct Investment' Robert E. Lipsey (2004), reviews and summarizes the findings of several studies made on the subject.
The first concern discussed in his paper addresses the question of whether foreign companies provide higher wages for domestic workers or not, and which would be the reasons for doing so.
The next question that comes up is if there is any impact on the overall wage level in the industry/country when foreign investors are granting higher salaries (Lipsey 2004).

Another matter that arose curiosity for further research was if foreign firms were paying higher wages for same quality workers and if they affect the structure of domestic labor markets. The results collected by Lipsey (2004) from other empirical papers showed that both in developed and developing countries, foreign firms pay higher salaries to their employees compared to indigenous firms. The biggest difference appears in the manufacturing industry where employees in foreign firms were granted even 25-30% higher wages that employees working for domestic owned firms in case of Mexico and Morocco. In Indonesia the same scenario repeated. Blue-collar workers in foreign owned plants received a salary with 25% higher than those working in domestic plants. Moreover, white-collar workers' salary in foreign firms was with 50% higher than for those working for host-country firms (Lipsey, 2004).
Also, in UK, the studies revealed that foreign owned companies paid higher salaries to both administrative and technical employees compared to local-owned enterprises.

So why would foreign owned companies pay higher salaries to their employees compared to domestic owned ones? An explanations could be the host-country regulations. For instance, in China, until 2001, the foreign companies were allowed to set a wholly owned subsidiary (WOS) only if they brought along state-of-art technology and exported most of their production (Long, 2012). Thus, MNCs needed specialized work force that knows how to operate the advanced software they provided, which at the end of the month translates into higher salaries for their employees compared to domestic owned firms.

Other explanation that seemed plausible was that workers would normally prefer to work for a local company, so in order to attract the work force, the foreign firms had to give local people an incentive to overcome their opportunity cost of choosing a foreign company. In the same line of thoughts, another motive was found to be the desire of MNCs to rank high in the eyes of the public and gain local legitimacy (Lipsey, 2004). The same author claims that a fourth reason for why foreign companies grant a premium to their employees is the fact they brought to local markets proprietary knowledge once they settled in. So in order to reduce employees turnover who could easily quit and take that knowledge with them at local competitors, foreign companies prefer to pay higher wages as a means of reducing people's incentive to changing jobs often (Lipsey, 2004).

However, foreign firms' presence indirectly influences also the wage level of domestic owned firms, through what is called in the business literature wage spillovers. In a set of studies made for Mexico, Venezuela, Indonesia, US and UK, researchers found contradictory results, some admitting positive spillovers, some stating that there are none to negative spillovers. For example, in Indonesia were observed significant spillovers to domestic owned companies and the evidence was pithy especially for white-collar workers. In US, there was no significant impact observed in the manufacturing industry, but in non-manufacturing sectors high influence appeared. In UK, the data from 1991 to 1996 showed no spillover effect on wage to negative effect to overall wage growth. What is important to keep in mind is that these results are relative, depending on industry type, countries policy and firms' own decisions regarding promoting or obstructing different kinds of spillovers (Lipsey, 2004).

More than wage levels comparisons between foreign owned plants and domestic owned ones, comparisons of productivity were highly investigated. The majority of studies were conducted in developing countries with a focus on manufacturing industry. Either the studies accounted for value-added and output per employee, capital intensity or level of workers' skills, the common conclusion was that labor productivity in MNCs was higher compared to indigenous firms (Lipsey, 2004).

In developed countries, the same results arose, but they were attributed to the fact that foreign firms are mostly found in industries were productivity is high and in the case of same industry comparisons, the differences arose because of plants size, capital intensity and high skilled employees (Lipsey, 2004).

1.3.2 Inward FDI and New Industries

Beyond the capital influx, increased productivity and better payments for their employees, MNCs many times bring to host countries new industries or totally new ways of approaching business (Lipsey, 2004). In addition, the opportunity to access foreign companies' networks and resources opens the path for growth and development of the industries domestic firms operate in. For instance, the effective management, marketing and technical know-how brought by a French company in Cote d'Ivoire through a joint-venture, conducted the country into the market of semi-processed cocoa (Lipsey, 2004). By analyzing export data in developing countries, several studies show that the new variety of products produced by MNCs had a positive effect of exports' growth. The results also pointed out that foreign companies and their affiliates are inclined more to producing tradable goods designed for export and their behavior also influenced the behavior of domestic-owned firms, which became more export-oriented (Lipsey, 2004). The author concludes (p. 367): 'The positive influence of inward FDI on host-country exports seems well established, whatever the mechanism. And the few studies of spillovers of exporting from affiliates to domestic firms point in the same direction.'

1.3.3 Does inward FDI promote host countries growth?

When thinking why would a country facilitate access to foreign investors, inevitably one might think that FDI is the door to the world market that helps host countries to grow and develop. Scholars that have tried to measure the growth of host countries in relation to FDI usually used the rate of growth of GDP and the stock of FDI in the same country. Although the results are mixed, it was observed that when combined with other factors, FDI affects positively growth. Yet, a positive influence that appeared on all studies was the relation between FDI and the level of education of host country's work force (Lipsey, 2010). What is worth keeping in mind is that inward FDI alone is not a guarantee for host countries that the positive effects will appear overnight. FDI is also influenced by the policies adopted by host countries' governments towards foreign investments, the willingness of domestic firms to learn and establish a beneficial connection with MNCs and all other firm and industry characteristics specific to each country (Lipsey, 2004; Zhang et.al, 2010).

There are also cases in which negative spillovers were registered from foreign to domestic owned firms. For instance, especially in intra-industry linkages, where local firms are in direct competition with MNCs, the former might be forced out to exit the market due to the impossibility to compete with foreign firms that own superior technology (Damijan et.al., 2003). Thus, it is important to make the distinction between intra-industry spillovers (horizontal spillovers) and inter-industry spillovers (vertical spillovers). Most of the studies accounted only for intra-industry analyzes and this could be one of the reasons of the mixed results that appeared over time. Vertical spillovers however are more likely to appear due to the necessity of cooperation between MNCs, their affiliates and local firms. In upstream linkages, foreign firms might need to improve the quality of their supplies and hence they could offer technical and managerial resources to improve domestic firms' capabilities (Damijan et.al., 2003). On the other hand, foreign companies often try to prevent their know-how to be leaked out to domestic competitors because they see it as a threat to their market share.

What is also important to mention is that the characteristics of host countries also affect the types of FDI they receive. One example is labor market reforms. These reforms can increase the attraction of foreign investors that seek lower labor costs, but may have no impact on attracting companies focused on innovation and R&D activities (Barrell and Pain, 1997). However, the evidence shows that most FDI is undertaken by technically progressive sectors. Thus, it is expected that once a foreign entity brings new technology and ideas into the host country, this will increase that country's capital and upgrade the production possibilities. Studies conducted in UK and Germany showed that as the stock of inward investments increased, so did the technical progress. The results are more visible in those sectors where local owners were less productive and had a technical disadvantage compared to foreign firms. In addition, foreign companies contribute more and more to increasing exports and employment of host economies. As Barrell and Pain conclude in their study (1997, p.785) 'foreign direct investment can act as an important channel for the diffusion of ideas and new innovations even between developed economies. Such investments can enhance the growth process in the host economy and raise welfare in the home economy by providing an additional flow of income to an investment in knowledge'.

All in all, the common perception among scholars and economic agents is that FDI is a key feature of the current world economic trend. Capital flows from one country to another help at

reaching international economic integration and are establishing long-term connections between cross-border economies (OECD, 2011).

Chapter 2. FDI in Central and Eastern European Countries and former Soviet Union

In their study 'Foreign Direct Investment as Technology Transferred: Some Panel Evidence from the Transition Economies' Campos and Kinoshita (2002) focus on the impact of FDI on host economies' growth on 25 Central and Eastern European (CEE) and former Soviet Union transition countries from 1990 until 1998. They stress the difference between these type of countries and developing countries by the fact that the former 'started out with a complete industrial structure and a relatively educated work force '(Campos and Kinoshita, 2002, p. 3). What is special for CEE and former Soviet Union countries is that, beyond having already started the process of privatization and modernization, they are also situated in the proximity of reach and developed European markets, which makes them attractive in the eyes of investors. However, they still lack the technological infrastructure present in Occident, thus having high potential for future development (Campos and Kinoshita, 2002).

It has been mentioned previously that studies revealed mixed results on the beneficial effects of FDI over host-economies, yet having a majority of papers claiming positive externalities that FDIs have especially on developing countries (Lipsey, 2004; Zhang et.al.2010). One explanation provided by Campos and Kinoshita (2002) regarding theory and empirical evidence discrepancy is that much of the theory only accounts for the technology transferred through FDI while FDI means more than just capital flows between countries, but the learning and know-how accumulated by human capital is much more difficult to quantify. Hence, they decided to test if in transition economies the FDI seen only as technology transfer, impacts host countries' economic growth. Using a modified version of a previous model by Borensztein, de Gregorio and Lee (1998), Campos and Kinoshita (2002) estimate two variants of the model where economic growth of transition countries, measured by their real Gross Domestic Product (GDP) growth is a function of several variables like: initial GDP, human capital, FDI, inflation rate, government consumption as % of GDP, war variable for internal and external conflicts and quality of bureaucracy. In their second variant, domestic investment variable is also included.

The transition countries analyzed are divided in 5 groups, as follows:

- ASIAN: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyztan, Tajikistan, Turkmenistan and Uzbekistan.

- BALKANS: Albania, Bulgaria, Croatia, Macedonia, Moldova and Romania.
- BALTICS: Estonia, Latvia and Lithuania
- BUR: Belarus, Ukraine and Russia
- VISEGRAD: Czech Republic, Hungary, Poland, Slovakia and Slovenia.

A first defining fact of all the countries was the huge output fall they witnessed after 1989 and from which they recovered slower than expected. The fastest restoration was experienced by the Baltic Countries, followed by the CEEs. In terms of incoming FDI, measured by cumulative net FDI per capita, annual net FDI per capita, FDI as a share of GDP and FDI relative to gross domestic investment, the results of the study show that the level of foreign investments has constantly increased in transition countries, but some subgroups faced more inward FDI than others (Campos and Kinoshita, 2002). First on top rank the Visegrad countries with a cumulative inflow of FDI per capita of 700$ in 1997. Second, come the Baltic ones with around 500$ per capita. Far behind are the rest of the groups with 100$ or less incoming FDI per capita.

An important note made by the authors is that panel data was not available for other variables like real exchange rate or more details about the grey/informal economy which accounts for even half of the country's output in some cases (Campos and Kinoshita, 2002).

Moving on, the FDI to domestic investment ratios for Visegrad and BUR countries, they come on top with 10, respectively 5 percent. The Balkans follow with an 18% and then Asian and Baltics with 25%. Since the first two groups had relatively small gaps between domestic and foreign investment, the latters had to make use of external financing sources for investments, one of them being FDI. A possible reason for which Hungary and Poland attracted most of the FDI after 1989 is their economic policy, while in case of Russia the country's resource endowments (oil and gas) are considered a major determinant (Campos and Kinoshita, 2002).

Among the variables found to positively influence economic growth are a low inflation rate, political stability, domestic investment and a well-functioning institutional framework given by the quality of bureaucracy. As concerns the FDI, results showed that it remained statistically significant and robust in all the tests conducted, thus leading to the conclusion that is a main driver of economic growth in transition economies. However, the human capital variable, which was considered to influence a lot the impact of FDI, is statistically insignificant for transition

countries. In the literature, for FDI to generate a positive impact on host countries, was needed a minimum level of human capital stock. Still in their study, Campos and Kinoshita (2002, p. 13) found that: 'as most transition economies lie above the threshold level of human capital, the positive effect of FDI on growth is found independent of the level of human capital for this set of countries.' In the set of explanations for the negative results of human capital coefficient lie the following: in socialist times, workers have had completed more years of education than in transition times, due to diminishing public financial support. So even if growth rates grow in post-socialist periods, average years of schooling decline, thus leading to an inverse relation between the two variables. Another possible explanation is that the level of human capital was 'artificially high' before 1989 and the actual contribution to economic growth was smaller than expected for human capital. The lack of flexibility of labor force needed in the current rapidly-changing environment brings up 'too many rocket scientists and not enough marketing clerks' (Campos and Kinoshita, 2002, p. 15).

Concluding their study, Campos and Kinoshita (2002, p.21) stress that FDI has a positive impact on the annual economic growth of transition countries, despite the facts that is was attracted by well-structured policies or good initial conditions of the host countries: 'Our main result is that the effect of FDI on economic growth in transition economies is positive and statistically significant. This result obtains using standard specifications from the literature and irrespective of the presence of the interaction term between FDI and human capital'.

One year later, the same authors bring new evidence of FDI patterns in the transition economies discussed above. This time, they investigate the determinants of location choice of foreign investors and if institutions, agglomeration economies, factor endowments and initial condition of countries affect their option (Campos and Kinoshita, 2003). When explaining their election for studying transition countries, they admit that 'These economies were industrialized and could count on a relatively cheap yet highly educated workforce. FDI is also perceived as a catalyst as it could bring not only less volatile capital flows but also the technology and managerial know-how necessary for restructuring firms' (Campos and Kinoshita, 2003, p.1). However, other regions like South America or Asia seemed to attract much more FDI than transition economies. In numbers, the United Nations Conference On Trade And Development (UNCTAD, 2002) reveals that between 1990 and 1994 the share of FDI in transition economies was only 2.1% out of the global FDI inflows, while South America and Asia received 10,

respectively 20%. Moreover, also between transition economies are high differences in attracted FDI, the preference of foreign investors being mainly Hungary, Estonia, Czech Republic, Poland, Russia , Kazakhstan and Azerbaijan (Campos and Kinoshita, 2003).

Campos and Kinoshita (2003) use again a panel data analysis of the same 25 countries mentioned earlier in this paper, between 1990 and 1998 [1]. To explain how each variable affects the location decision, institutional policies are one of the main factors for foreign investors in choosing between different countries. Successful implementations of economic reforms, political stability, low level of corruption and trade liberalization decisions are also considered to have a positive influence on the attracted FDI. Agglomeration economies suggest that new foreign investors are prone to gather in similar locations in order to benefit from the potential spillovers that are generated by the investors already in place (knowledge spillovers, specialized work force, intermediate products). Initial conditions provided by the host country like level of income, urbanization, natural resources and trade behavior are also thought to have a meaningful impact on investment decisions (Campos and Kinoshita, 2003).

The results of the study show that FDI in transition economies differ according to the motives of investors to choose a certain location. Market-seeking FDI will go where the domestic market size is large. However, more important appeared to be macroeconomic policies. A history of low inflation and fiscal balance is a sign for investors that host country governments are committed and credible regarding economic stability. Furthermore, successful trade liberalization reforms displayed by reduced trade controls and quotas are another incentive to attract FDI. In strong relation to these policies is also the role of institutions. The lower the non-economic costs of foreign investors like time needed to deal with local authorities, a lower corruption level, smooth bureaucracy and clear regulations regarding licensing requirements, consumer safety, environmental requests and developed infrastructure, the more probable these countries will exhibit higher levels of FDI. ‘Overall, we find that FDI into transition countries is driven mainly

[1] For more details about variables and methods used, see Campos and Kinoshita (2003) ‘Why does FDI go where it goes? New Evidence from the Transition Economies’ William Davidson Institute, Working Paper Number 573, June 2003

by agglomeration, large market size, low labor cost, and abundant natural resources. Moreover, countries with good institutions, great trade openness, and lower restrictions on FDI flows are likely to receive more FDI.' (Campos and Kinoshita, 2003, p.18).

Further explanations are provided for resource-seeking FDI. In countries like Russia, Azerbaijan or Kazakhstan, which are natural-resource abundant, FDI is mainly concentrated in resource based industries like resource extraction or energy transportation infrastructure. In contrast, in CEE and Baltic countries, foreign capital is primarily invested in the manufacturing industry. Thus, for the last two groups of countries, agglomeration effect may appear because in the manufacturing sector positive externalities can be taken advantage of by other investing firms as well (specialized work force, upstream and downstream linkages). On the other hand, in the resource-based industries, the more companies in the same place, the less resources to be extracted. In order to prevent a collapse due to natural resource extinction, the authors suggest as alternatives trade openness, investment in other industries like manufacturing which are more likely to resist over time, and the proliferation of sound national institutions (Campos and Kinoshita, 2003).

The authors summarize their findings as following (p.22): '...foreign investors prefer transition countries that are more open to trade and with fewer restrictions on FDI as the destinations of their investment. We also find that progress on economic reform (external liberalization) plays a large role. Finally, FDI motives vary greatly between non-CIS and CIS countries.[2] In the non-CIS countries that receive FDI mostly in the manufacturing sector, institutions and agglomeration are chief considerations for investors. In the CIS countries that receive FDI mostly in the resource sector, abundance of natural resources and infrastructure are crucial factors.'

Another scholar, Konings (2001), investigated the effects of FDI on domestic firms' performance in three transition countries, namely Romania, Bulgaria and Poland. Using firm level panel data from 1993 to 1997 for Bulgaria and Poland and from 1994 to 1997 in Romania,

[2] The CIS stands for the Commonwealth of Independent States, which consists of all former Soviet Union countries (excluding the Baltic States and CEE) and they are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan (Campos and Kinoshita, 2003, p.3).

he wanted to see if foreign firms have better performance level than domestic ones and if there are any spillovers generated by foreign to local firms.

As mentioned previously in this paper, after the collapse of Soviet Union, FDI flows into transition countries increased substantially. Below, there is a graphic showing the evolution of FDI in Romania, Bulgaria and Poland.

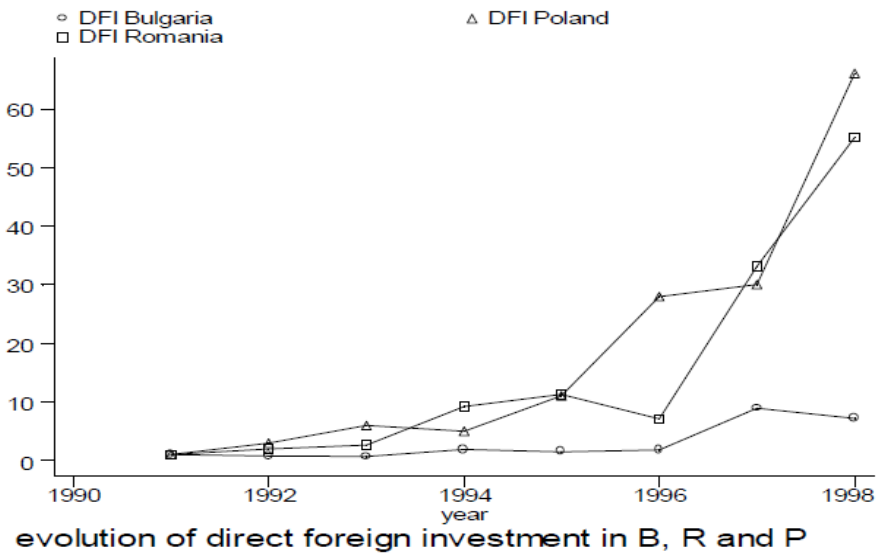

Figure 1. Evolution of FDI in Bulgaria, Romania and Poland

Source: Konings (2001, p.6) 'The Effects of Direct Foreign Investment on Domestic Firms: Evidence from Firm Level Panel Data in Emerging Economies'

Although all three countries faced a high collapse in output after 1989, Poland recovered much faster compared with Bulgaria and Romania and was able to achieve similar GDP levels as in the pre-transition period.

The data Konings (2001) uses is both from manufacturing and non-manufacturing industries which have more than 100 employees. The results for Romania (similar with Bulgarian ones) show that foreign firms do not have better performance levels than domestic ones. Furthermore, negative spillovers are reported meaning that privatizations of state-owned companies didn't show positive effects right after a short period of time. Instead, domestic firms needed a longer term period until they engaged in restructuring and technology updating and positive effects would be visible only on the long run. The competition effect exercised when foreign firms come into the country drives domestic-owned firms out of the market due to their

impossibility of competing with superior technology MNCs provide. That is why for Bulgaria and Romania, the results are negative.

However, Poland started the transition earlier than Bulgaria and Romania and has a more advanced stage of development. Thereby, in this country, the positive effects of foreign ownership started to appear.

The conclusion of Konings' (2001) paper is that in the early stages of transition, inefficient local firms will be driven out of the market, but on the long run FDI benefits the overall economic environment and increases the efficiency of local companies.

Damijan et.al. (2003) conducted a study for 10 advanced transition countries in order to reveal if there are any technological spillovers (vertical and horizontal) from foreign direct investments to local firms, beyond the direct effect FDI has on local affiliates of MNCs. The 10 countries included in their study are: Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia and Slovenia.

International technology transfers can arise between countries through different channels. The three most important are considered licensing agreements, FDI and international trade. However, international licensing agreements are not as effective as believed because the latest and most advanced technologies are less likely to be shared by MNCs. Also, exports and imports stimulate firms to learn by doing, yet they are more resource-consuming (Damijan et.al.,2003). Thus, FDI remains the preferred means of technology transfer, due to the fact that domestic firms do not have to finance themselves the acquisition of new technology. What is more, the new technology is available much faster through FDIs than through licensing or international trade. Under these conditions, the possibility of positive spillovers is also increased (ibid).

There is this debate in the literature, whether FDI provides positive or negative spillovers to host economies. Depending on the data and methodology used, some scholars report positive spillovers from MNCs to their affiliates and no or negative spillovers to other local firms in the host country. Another stream of practitioners state that even in the same industry, positive externalities appear, while others state that these outcomes are available only to the firms located close to the affiliates (for an overview of these studies see Damijan et.al.,2003; Campos and Kinoshita, 2003). The thought the authors emphasize here is that the empirical studies which are searching for horizontal spillovers, should also take into account the technology gap between

foreign and domestic firms, while for vertical spillovers studies, backward and forward linkages are important determinants that should be taken into account (Damijan et.al,2003).

When looking for possible vertical technological spillovers in backward linkages, Damijan et.al. (2003) use panel data for the 10 countries mentioned earlier, during 1994-1999.
At first, their results show that decisive in MNCs considerations to whether or not acquire local firms, stand skills and capital intensity. Size and labor productivity of the domestic firm come secondly in investors' decision making process. Moreover, for all 10 transition countries it was confirmed the propensity of foreign investors to gather in industries where foreign ownership is already high.
Positive backward vertical linkages were found for 6 countries: Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovenia. Another finding is that in Romania and Lithuania 'faster productivity growth is accounted in the majority foreign owned affiliates only' while in Estonia, Hungary and Slovenia foreign owned firms have a total factor productivity above the level of domestic owned ones (Damijan et.al., 2003, p.16). Furthermore, in Czech Republic, Poland, Romania and Slovakia were observed also (low) positive intra-industry spillovers from foreign affiliates to local firms, whereas in Bulgaria only the foreign affiliates benefited of these spillovers.

In terms of the importance of absorptive capacity and innovation capability of local firms, Damijan et.al. (2003) obtain different results for the ten countries. In Lithuania, Latvia and Romania -considered the least developed transition economies- innovation capability appeared to be an important determinant of local firms' factor productivity, while the absorption capacity of domestic firms was found to be an obstacle for horizontal spillovers of FDI in Estonia, Hungary and Latvia. The only country where absorption capacity seems to be important is Slovakia. When accounting for backward vertical spillovers, the absorption capacity has significant effects only in Slovenia and Romania 'where higher absorption capacity tend to decrease the scope for accumulation of vertical spillovers from FDI' (Damijan et.al., 2003, p. 18). Still, the authors motivate that these results may arise because of the poor data quality at firm level regarding R&D.

When concluding their study, Damijan et.al. (2003) stress that positive effects of FDI were observed in five of ten transition countries and that foreign investments are the most

important channel for productivity spillovers over local firms. Moreover, vertical spillovers appear to be more important for domestic firms productivity growth than horizontal ones. 'These results speak in favor of the larger importance of vertical versus horizontal spillovers from FDI.' (Damijan et.al., 2003, p.19)

Apergis et.al. (2007) assess the relation between FDI and economic growth in 27 transition countries between 1991-2004. They use cross-country data and panel co-integration analysis and spilt the countries into high and low-income countries per capita and into countries that implemented successful privatizations and unsuccessful ones. What the authors want to see is if the standard of living in these countries and privatizations reforms have any influence over the attracted level of FDI or not. The countries included in the study were: Albania, Armenia, Azerbaijan, Belarus, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Former Republic of Yugoslavia Macedonia, Moldova, Mongolia, Poland, Romania, Russia, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

The results show, before dividing the countries into the above sub-groups, that the level of income in transition countries is an important factor that attracts FDI and that the inverse relation is also available, meaning that FDI has a significant influence over the income growth (Apergis et.al., 2007). Moreover, income is also positively influenced by the level of exports and education, meaning that the higher literacy of human capital, the higher the respective's country growth process.

However, when dividing the countries into low-income and high-income per capita, the results yielded are quite interesting. In countries with high-income (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Russia, Slovenia, and Ukraine) during the sample period, FDI can generate income growth, while in low-income countries FDI had no effect over growth. As possible explanations for this results, Apergis et.al. (2007) suggest the following: Infrastructure is not yet developed well enough to sustain FDI on long term; The quality of work force is not sufficiently high so foreign companies need to invest more in training programs; If other investors are not very present in these countries, it may be a sign of bad conditions and thus new investors won't benefit too much from potential spillovers that can appear due to agglomeration effects; Economic and political environment is not very stable, so the countries are perceived to be more risky; The level of corruption is high and law enforcement low; there are still some restrictions on FDI.

Then, when classifying countries according to successful and unsuccessful privatization programs, the next countries are put in the first category: Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Bulgaria, Estonia, Lithuania, Latvia, and Poland. The same results arose in here as in the previous case: Countries with successful privatizations of state-owned companies attracted more FDI than countries included in the second category (Apergis et.al.,2007).

Bevan and Estrin (2000) analyze in depth the role of economic and political stability in 11 transition countries in the period between 1994 and 1998 focusing also on the influence that a prospective join of these countries into EU might have on incoming FDI. It is known that when choosing a certain location to invest, foreign companies look at the host-country's market size, costs of resources (natural and labor) and the political and economic stability that it provides. For many transition economies, their most important resource is the labor force, which has similar costs as in Asia or Latin America, but a higher level of skills and scientific base (Bevan and Estrin, 2000).

The authors measure country economic and political risks by the ratings received from international organizations. For EU announcements' impact on FDI, they estimate a risk equation which contains 'proxies for macro-economic performance, progress in transition and corruption', further expressed in terms of inflation rate, stock of external debt, extent of privatization and share of industrial sector and finally, corruption is linked with the level of bribery needed to undertake business in the country (Bevan and Estrin, 2000, p. 11).

The 11 recipient countries included in their study are: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia and Ukraine. The providing countries of FDI are: EU-14, as Belgium and Luxembourg are merged, Korea, Japan, Switzerland and the USA) as in 1998 these countries accounted for 87% of world outward FDI, while the former recipient countries accounted for 82% of total inward FDI received in 1998 (Bevan and Estrin, 2000).

The results of their two-stages analysis show that firstly, foreign investors are attracted by the low labor costs transition countries offer. However, beyond lower costs, the work force has to be also productive. Yet, the dynamics of labor costs changes have a negative effect on the rate of growth of FDI. In other words, a wage increase not motivated by productivity increase, is inverse related with attracted FDI. Secondly, the country credit ratings are positively related with the industry share in GDP and corruption measured by bribery tax is negatively related with country

credit ratings. Hence, if institutional capacity and rule of law have a low value, so will be the credit rating offered and thus the attraction of the country in the eyes of foreign investors diminished. Thus, the bigger the systematic risk associated with a country, the lower FDI inflows into that country. On the other hand, announcements of countries' accession to EU directly impacted FDI inflows, as the prospect of being a member of European Union is perceived as a validation that the adhering country meets all the legal, economic and political requirements imposed by the EU. Although these announcements do not impact directly the credit rating, the increased FDI flows into the region will in turn positively affect the rating in time (Bevan and Estrin, 2000).

In conclusion, there are still differences between transition countries in regards to the amount of FDI attracted, the preference of investors being mostly for countries like Hungary, Czech Republic and Poland. However, the rest of CEE countries are changing their policies to a more investment-friendly attitude and the accession to EU positively impacts these economies in the eyes of foreign investors. Beyond low labor costs, investors come into the region also due to the relatively high skilled personnel and agglomeration effect.

As far as recipient countries' perspective, generally positive spillovers are encountered from FDI in terms of increased productivity, higher wages and technology transfers. Moreover, vertical spillovers are more common from backward linkages between local firms and MNCs plus MNCs affiliates. What still needs to be improved is the political and institutional stability by reducing bureaucracy, diminish the incentives of bribery and assure a better law enforcement.

Chapter 3. Research methodology

This chapter's objective is to explain the readers how the study was conducted, what kind of data was used and how was this data analyzed. Later on, it addresses the reliability and validity of the data issues and potential biases that may appear because of the author's own approach to research the desired topic. For a better overview of data-sources used, a table containing all the major information on this matter can be found in the Appendix. However, a detailed discussion about different waves of Philosophy of Social Science won't follow as this does not represent the purpose of the paper.

Put differently '*Methodology* is the strategy or plan of action guiding the entire research. It describes the reasons underlying the choice and use of specific methods in the research process. Others refer to it as the research design or how the researcher goes about finding out the knowledge he desires' Kuada (2009, p.5). There are many ways in which research can be conducted, depending on the purpose of each study. Riley et.al (2000) make the distinction between:

- Primary and Secondary Research
- Theoretical and Empirical research.
- Descriptive and Explanatory Research
- Positivist and Interpretivist Research

To briefly explain them all, the first classification has to deal a lot with the difference between primary and secondary data (more details are to be found below). *Primary research* involves the collection of primary data 'collected specifically in pursuit of particular research objectives' (Riley et.al., 2000, p.8). On the other hand, Secondary research is done relying only on secondary data sources. Yet, even Primary Research draws on Secondary Research prior to the commencement of the study in order to see what work has been undertaken previously, what is the knowledge gap and how should one design the future research (Riley et.al, 2000).

Theoretical Research, in contrast to Empirical Research, consists of interpreting and reinterpreting existing data at concrete and more abstract levels in order to deepen the

understanding of a certain subject. Empirical Research is more focused on collecting primary data through experiments or observations so to contribute to the theory, test or formulate new hypotheses.

Descriptive Research deals with questions like 'what, when, where and who' aiming at offering a picture of the phenomenon under study, whereas Explanatory Research digs more into 'why' and 'how' a thing happened, looking for causality relationships between concepts and phenomenons. Explanatory Research is done for example when one desires to test something before provide it to the consumers, relying on methods such as review the literature on the matter and then have interviews, focus groups, pilot studies or the like, in order to gain more insights into a given situation.

Finally, *Positivist Research* seeks to apply scientific research methods in studying a social fact while Interpretivist Research seeks to understand human actions and behaviors in certain situations, dependent on their context of shared meanings (Riley et.al.2000, Kuada, 2009).

Research's objective could be to either confirm existing facts either to discover new ones. Moreover, one can draw on existent knowledge in order to reveal a new perspective over the topic being studied. This can be done by collecting primary or/and secondary data. Primary data is new and original data collected especially for the purpose of the study in course, while secondary data is data collected by other scholars for previous projects which one uses in order to pursue a distinct study objective (Riley et.al., 2000).

Among the advantages of collecting secondary data, first and foremost is resource saving in terms of time and money. Because the data has already been collected, the time spent to collect new one is significantly reduced. Similarly, the costs are also smaller. Other advantage is the size of the sample and its representativeness. For a student researcher it would be much more harder to get access to firm level data from multiple countries, than might be for a business academician (Sørensen et.al.,1996). As disadvantages of using secondary data can be mentioned the fact that one doesn't know how data was selected and the quality of it. Moreover, the interpretation of the results might be influenced by the ones that firstly collected the data and can be biased. That is why it is important to always be careful at the following facts: '(1) What was the purpose of the study? (2) Who collected the information? (3) What information was actually collected? (4) When was the information collected? (5) How was the information obtained? (6) How consistent is the information with other sources?' (Stewart and Kamins, 1993, p. 2)

This takes us further to questions regarding the validity and reliability of data. Joppe (2000) offers the following explanation of what validity means in a quantitative research: *Validity* determines if the research measures are accurate and if they indeed measure what was intended to measure. Moreover, are the results obtained truthful? One way to determine that is by asking different questions and consult the research done by others. Basically, the research questions have to be addressed by using the appropriate instruments in order to reach a valid result. Questions like 'Is the chosen sample representative for the entire population?', 'Are there any external factors that might influence the study's outcome?', 'Is the measurement instrument accurate?' should be asked before initiating a research. Then, when the study is over, one can check for validity by asking if the results can be used to make good forecasts (Arbnor and Bjerke, 2009).

In strong connection with the validity of data comes its reliability. A research is reliable when the results are consistent over time and accurately represent the total population under study. Put differently, reliability is ensured when the results of a study can be reproduced using a similar methodology (Joppe, 2000). One method that can ensure the reliability of the study is the test-retest method. For instance, a respondent to a questionnaire might be asked to answer the same question in two different points in time, maybe the second time having the initial question formulated a bit different. However, one can obtain a consistent and repeatable result without necessary ensuring by default the validity of the instrument used. To sum up, even though results are similar and consistent over time, if the research didn't measure what it had proposed to in the beginning, the instrument is not valid (Joppe, 2000).

3.1 Data collection

Now, the domain of International Business (IB) is a vast one and it has been investigated from different points of view in time. Being a multi-disciplinary subject, we can find researchers that studied IB by focusing on strategic, transaction costs, cross-cultural or behavioral matters and the list can go on. What is worth mentioning is that there are by far more quantitative studies made than qualitative ones (Doz, 2011).

The present paper adopts a quantitative approach on secondary data collection. Quantitative research assumes that world facts can be observed and measured and information is revealed by analyzing numeric data. Then, most of the times, the final result is usually expressed

in statistical terms: 'For example, a quantitative researcher may prepare a list of behavior to be checked or rated by an observer using a predetermined schedule or numbers (scales) as an instrument in his/her method of research. Thus, a quantitative researcher needs to construct an instrument to be administered in standardized manner according to predetermined procedures' (Golafshani, 2003, p.598). Quantitative data collection methods are generally statistical analysis or empirical surveys conducted on large scales. The data gathered in this way is considered to be more objective in comparison with in-depth interviews, focus groups, biography or pychotherapy which are seen as more subjective, depending on the implication of the researcher in the study (Morgan and Smircich, 1980).

At first, for this paper, previous theories which treat the topic of host country impact of FDI were looked at. Both empirical and conceptual papers are taken into consideration and an overall perception of the issue under investigation is made. Then, in order to see if the theory applies to real life situations, a study case is conducted. In other words, after drawing the main ideas of what potential benefits inward FDI could have on host countries, the case of Dacia acquisition by Renault Group is analyzed. This approach of having an a-priori perception over a given phenomenon and then test it to see if the results accept or reject the hypotheses is considered an deductive approach to research (Kuada, 2009). The data was collected through desktop research from multiple sources, as follows:

- for the first part of the thesis - Introduction, Literature Review and Research Methodology - the author looked for studies conducted in the same filed of interest, using as search engines Google Scholar, World Bank studies, United Nations Conference on Trade and Development reports and Aalborg University's database. The criteria of choosing the relevant articles was the number of citations (the higher, the better) and the source of publication. Among publication sources, the most prevalent were Management Decision, American Economic Review, Centre for International Economic Studies, Econstor, JSTOR, Journal of International Business Studies, International Business Review and a number of Working Papers, many provided by William Davidson Institute.
- for the second part of the thesis - Study case - beyond the above mentioned sources, there were used also national (Romanian) and international statistic databases like Eurostat,

INS (National Institute of Statistics in Romania), press releases, Government reports and annual reports of Dacia and Renault.

The method of using such different sources of data is called data triangulation. Triangulation is seen as an instrument for cross-validation because it combines multiple methodologies in researching the same phenomenon (Jick, 1979). Some scholars argue that mixing the methods of obtaining data offers a holistic understanding of the topic under investigation, while others state that combining qualitative and quantitative methods may lead to different interpretations which are not convergent one to another. Hence, one should choose the method it considers appropriate for his research and more important, explain the techniques used in a detailed manner so that it is clear how final results were obtained (Jick, 1979). Jick (1979, p. 604) further stresses 'In all the various triangulation designs one basic assumption is buried. The effectiveness of triangulation rests on the premise that the weaknesses in each single method will be compensated by the counter-balancing strengths of another.'

In this paper, the level of analysis for studying the impact of inward FDI is the auto-moto industry and the unit of analysis is the acquisition case of Romanian company - Dacia by the French producers from Renault Group. For the macroeconomic effects of this takeover, statistics and databases are used in order to see how the above mentioned transaction affected the GDP of Romania, the level of exports and imports (balance of trade), the exchange rate and other similar indicators. These can be considered as objective data, because information is retrieved from numeric and statistic data which is further embedded into graphs and trends, reveal possible patterns and make forecasts for future similar cases. Afterwards, for social and political impacts of Dacia-Renault transaction, subjective and objective data is combined. Subjective data is provided mostly by press releases from different news agencies and Government statements, while companies' annual reports and statistical databases are considered objective sources.

The reason for this choice of topic is because Romania is the home country of the author and thus the most familiar environment to study. Moreover, client of Dacia herself, she wanted to see how did this acquisition affected the economy of the country. Dacia was chosen because it is the biggest company in Romania in terms of turnover and its' biggest exporter. In addition, Dacia is a national pride and many can relate to the story of Dacia as it illustrates the stages Romania passed through in the past 50 years. After the case analysis, the conclusion is presented in the directions drawn by the literature review. Productivity, labor force, exports and inter-industry spillovers are illustrated and then a general overview of Romania's economic system as revised by international report agencies. Lastly, forecasts and further directions for improvement are suggested for policy makers.

The structure of the thesis is represented in the figure below:

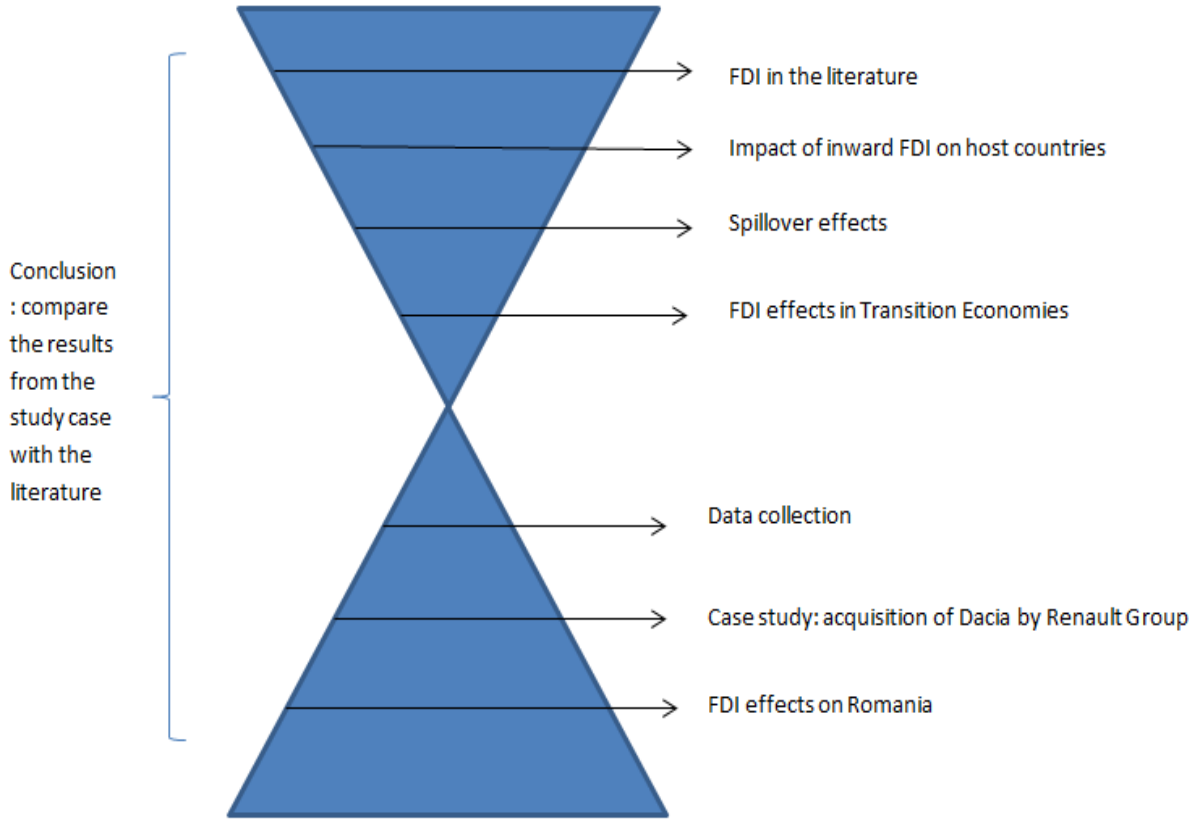

Figure 2: Structure of the present paper, own creation

In the beginning, a general overview of what FDI is and how it impacts both home and host countries is presented. Afterwards, the paper focuses only on foreign direct investments' effects on host economies, accounting for different spillovers they might provide. Then, the information is narrowed down to the relationship between FDI and host economies of transition countries. In order to see if the observations from the literature apply in the case of Romania, data is collected from multiple sources and the case study of acquisition of Dacia by Renault Group analyzed. Being the main exporter of Romania and the biggest company in the country, the thesis onward explores how did this transaction affected the economic environment in Romania at macroeconomic level and in the end, in the conclusion, are presented the results and the correlation of the findings with the literature.

According to research classifications proposed by Riley et.al. (2000), this paper falls in the next categories: it is a Secondary Research because it relies only on secondary data collection, data that was gathered for other purposes but the present study. Further, it is a

Theoretical Research because it interprets and re-interprets existing data in order to better understand the investigated topic and it is not based on personal experiments and primary data collection that would test new hypotheses. Also, Descriptive Research type suits better the purpose of the paper because it is offering a picture of foreign investments' effects, although Explanatory Research is involved up to a certain point when trying to explain how things could be improved for future investment projects. Last, but not least, a Positivist Research approach is undertaken to study the phenomenon using natural science methods (Most of the articles in the literature review have used panel data at firm or country level in order to explain the motives behind FDI. What is more, statistical databases are employed when searching for interconnections between different variables.

The use of secondary data can lead to biased findings. That is due to previous researchers' way of selecting the relevant data, their collection methods and interpretations. The researcher has an a priori view of the world and the way he/she understands social phenomena may influence the methods used in a research (Cope, 2005). Moreover, because the author of this paper comes from Romania, she might overestimate the positive and negative effects of FDIs and provide a subjective view over the matter sometimes. Therefore, the reader should critically assess the content of what he reads.

Chapter 4. FDI in Romania

In the FDI related literature, Romania is included in the 'transition countries' classification, this name suggesting the feature of Central and Eastern European (and Asian) countries that used to be part of the Soviet Union until 1989. After the collapse of USSR (Union of Soviet Socialist Republics) and the communism, the former members of the above mentioned union started to change their social, political and economic systems, from a central planned one to a free market system. Thus, in the past 27 years, the country was engaged in this transition (which continues nowadays as well) between the embedded legacy of the previous regime and the adoption of modern norms that govern capitalist countries at the moment (Campos and Kinoshita, 2003). Inside Romania's economic system, the transition brings major changes that can be seen in form of privatizations of state-owned companies, the appearance and growth of Bucharest Stock Exchange and capital markets and trade liberalization which was more obvious after Romania joined European Union in 2007.

The pattern of FDI inflows in Romania varies according to the general economic trend. Thus in periods of economic boom, FDIs are rising while during periods of crisis, the inflow of foreign investments is declining. In addition, specialists attribute this 'sinusoidal evolution' of FDIs to the absence of an effective national strategy on investments (Sirbu, 2014, p.447). The decade 1990-2000 was a period characterized by great instabilities and changes. One example is the high level of inflation in 1993 which reached a top of 256,1% and decreased to 45,7% in 2000. In 2015 the rate was -0,6% (National Institute of Statistics). In the same decade, the reform of administrative institutions started as well as privatizations of former state-owned companies. Due to the mass industrialization that happened in the communist era, most of the privatizations took place in different industries, from manufacturing industry to natural resource exploitation and refinement. In addition, the telecommunication and financial sectors also experienced the wave of privatizations (Sirbu, 2014; Financial Magazine, 2014). In Table 1 a list of the top privatizations is presented:

Table 1: Top privatizations in Romania, according to the sum of money earned by the state from the privatization

Romanian company/ Taken by	Year	Industry	Sum of money earned by the Romanian state from the privatization
Rompetrol/KazMunayGas (Kazahstan)	2007	Natural Resources – Oil	2.7 bil. Euro
BCR/Erste (Austria)	2006	Banking	2.2 bil. Euro
Petrom/OMV (Austria)	2004	Natural Resources,Energy	670 mil. Euro
Romtelecom/OTE (Greece)	1998	Telecommunications	675 mil. $
Romcim/Lafarge (France)	1997	Building materials	200 mil. $
BRD/Societe Generale (France)	1999	Banking	200 mil. $
Sidex/ArcelorMittal (Luxembourg)	2001	Siderurgy	70 mil. $
Automobile Craiova/Ford (USA)	2007	Auto,Manufacturing	57 mil. Euro
Casial Hunedoara/Lasselsberger (Austria)	1997	Building materials	52 mil. $
Automobile Dacia/Renault (France)	1999	Auto, Manufacturing	48.6 mil Euro
Rulmenti Grei Ploiesti/Timken (USA)	1997	Manufacturing	40 mil. $
Alro/Marco Int. (USA)	2002	Aluminium	11.4 mil. $
Cost-S.A./Mechel Targoviste (Russia)	2002	Natural resources-Mining & Metals	25 mil. $

Source: Ziarul Financiar (2014)

Even though more than 50% of total FDIs are attracted by different industries, more recently, important investments were made by foreigners also in the trade-retail industry (11,7 % from total FDI), construction and real-estate (9,8%) and IT&C (6%), as calculated at the end of 2014 (Business Magazine, 2015).

The evolution of FDI in Romania from 2003 to 2014 according to the data provided by the National Bank of Romania (NBR) shows an increasing trend, from 9,662 million Euro of foreign investments in 2003 to 60,198 million Euro in 2014 (See Table 2 in Appendix for more details).

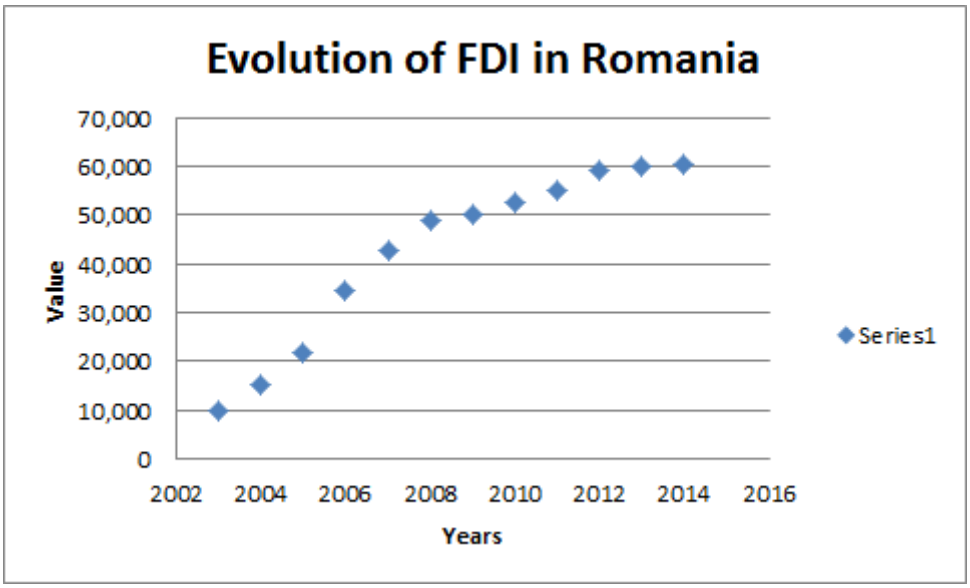

Figure 3: Evolution of FDI in Romania from 2003 to 2014; values expressed in million Euro

Source: Statistics Division of National Bank of Romania (NBR)

From the above graphic we can see that in the first years the inflow of FDI displays spectacular increases from one year to another, while during the crisis period the inflows are more constant and increase just slightly from year to year. One motive for the pre-crisis increases was that Romania benefited from pre-accession funds from European Union between 2004-2006, when FDI increased by 357%. Also, in 2004, Romania joined NATO and the Austrian company OMV bought 51% of the shares of the former Romanian Company Petrom and becomes the biggest Romanian oil and gas company. After one year, in 2005, the Austrian Erste Group purchased a majority shares pack (61,8825%) from the biggest banking institution of Romania, the Romanian Commercial Bank, for a total sum of 2.2 billion Euros. Then, in 2006 the Romanian Government introduced the flat tax rate of 16% and one year later, in 2007, Romania joined the EU. These measures improved the attractiveness of Romania in the eyes of foreign investors, so that in 2007 Ford company acquired 72,4% from the shares of Craiova Automobiles, for the sum of 57 million Euros. In the same 2007, KazMunayGas buys 75% of

another Romanian oil company, namely Rompetrol Group, for the sum of 2,7 billion euros (Sirbu, 2014). [3]

According to Business Magazine (2015), from 2009 to 2015 the top three countries that invested the most in Romania are Netherlands, Austria and Germany, with more than 50% of the total FDIs made in the country (Netherlands - 23,6%, Austria - 16%, Germany - 12,4%). Although France used to be on the forth place, in 2013 Cyprus outrun it, owning 7,1 % of total FDIs compared with France which has only 6,8%.

Still, there are notable differences between the country's regions in attracted FDI. Before 1989, the forced industrialization activity concentrated in those regions where natural resources were abundant, while the rest of the country had a predominant agricultural economy. However, after the fall of the former regime, foreign investments were mainly done in agricultural regions, leaving the artificially developed and industrialized regions far behind in terms of adjustment to the market economy (Sirbu, 2014). Currently, the richest area of the country is Bucharest-Ilfov situated in the South-Eastern part, not surprisingly though because Bucharest is the capital city of Romania. Thus, the bulk of multinationals have their headquarters in the capital. Then, come the Western and Central regions which are the most developed in Romania. The good infrastructure, their proximity to western border and important University Centers made them attractive for foreign investors looking for qualified labor force. In contrast, the preponderent agricultural areas from North-East, South-East, South and South-West are the less developed ones, with the highest unemployment rates, low GDP/capita and low level of attracted FDI (Sirbu, 2014). In Table no.2 one can see the evolution of GDP/capita in the period 2000-2010:

[3] Although that Dacia was acquired by Renault Group in 1999, before the above mentioned acquisitions, more is to be discussed later in the Chapter dedicated to this acquisition.

Table 3: Evolution of GDP/capita from 2000 to 2010 in different regions of Romania

REGION	GDP/capita		
	2000	2007	2010
Northeast	2508,9	12340,9	15014,8
Southeast	3212,5	15641,8	20076,8
South Muntenia	2857,4	15757,8	20288,2
South - West - Oltenia	2993,0	15097,3	18735,1
West	3723,4	22341,9	27640,0
North – West	3322,3	18610,5	21827,2
Center	3729,3	19579,5	23428,3
Bucharest - Ilfov	7821,3	43037,3	58137,0

Source: Sirbu, 2014,l p.445, European Union strategy and foreign direct investments impact on Romania's regional development

So far, has been mentioned that FDI can have both positive and negative macroeconomic effects on a host country. One of the shortcomings is that FDI may increase the disparities between different regions of the country. Market forces, supply and demand, tend to highlight in time these disparities, as foreign investors generally prefer the rich and developed regions where unemployment rate is low and transport and other infrastructure is well enhanced. A good example in this case is the South Muntenia area which benefits from waterborne transportation on the Danube river and the existent harbors, besides the highways present in the region. Although that data pictured Romania as a country with low disproportions between its regions when it entered the transition process, these disproportions grew fast, placing the capital region far above the rest of the country. The next Table illustrates the share of FDI in each region of Romania from 2008 until 2010, based on the data provided by the National Bank of Romania (Sirbu, 2014).

Table 4: Share of FDI in Romania's regions from 2008 to 2010

REGION	FDI %			
	2008	2009	2010	2011
Northeast	2,3	1,9	2,4	2,9
Southeast	7,3	5,9	6,3	5,4
South Muntenia	7	7,2	7,3	7,4
South -West Oltenia	2,5	4,1	3,7	3,3
West	5,4	6,2	6,5	7,2
North – West	4,3	3,9	4,2	4,5
Centre	8,5	7,4	7,4	7,6
Bucharest - Ilfov	62,7	63,4	62,2	61,7

Source: Sirbu, 2014,l p.445, European Union strategy and foreign direct investments impact on Romania's regional development

The effects of FDIs can be analyzed depending on the phase of the investment plus impacts on short- vs. long-term. Thereafter, in the first phase - the execution of investment, the impact of FDI on the balance of payments is positive (BOP) because the new capital invested equilibrates the BOP. However, in the second phase - implementation of business operations, the effects may be negative. For example, when the state-owned phone company Romtelecom was privatized, the foreign investor was granted a five year monopoly advantage on the Romanian telecommunications market from 1998 to 2003. Within those 5 years, the tariffs for customers increased significantly, yielding higher profits for Romtelecom's owners. Furthermore, this lead to an increase in expats' salaries, royalty fees and profits repatriation (Coman and Strilciuc, 2009).

The balance of payments might be also negatively influenced if the investing company is contracting a foreign loan and then seeks to have a fast return on investment by demanding higher royalties or engaging in immoral fiscal practices. What is more, the new company may need superior equipment, machines or raw materials that are not available at the moment on domestic market, thus it will have to import the necessary resources. This in turn will affect the trade balance which will record a deficit if the exports will not compensate the increased imports (Zaman and Vasile, 2006; Coman and Strilciuc, 2009).

In the third phase - the maturity of investment, the effects on BOP and trade balance are mixed. They can be positive if the profits are reinvested in the host-country or if the foreign company produces in order to serve other markets as well - higher exports compared to imports. Yet, if the MNC pays high dividends to its shareholders, if it has to repay the debt on a loan or if the profits are repatriated, then the negative effects of the investment may outrun the positive ones (Braniste, 2012; Coman and Strilciuc, 2009).

What could be another downside of foreign direct investments is their volatile character. If a country's economic growth is mostly based on FDIs, then a decision of the foreign companies to move to other states can have devastating effects. Especially after the MNC has recovered the return on investment and the production capacity reached its best, it is very likely that it will search for other countries where labor is even cheaper than in Romania in this case (Zaman and Vasile, 2006). For instance, when Nokia shut down the production and closed the facility they opened in 2007 near Cluj, central Romania, 2.200 people lost their jobs. The company decided to continue its activities on the Asian market due to a better proximity to their key stakeholders and efficiency-seeking motives. In the following lines comes part of the letter Nokia's management sent to their employees, motivating their decision to close the factory in Jucu, Cluj: '*Therefore, we plan to ramp down our manufacturing facility in Cluj, Romania by the end of 2011. We are aligning our manufacturing in Europe with consumer behavior in Europe. Specifically, smartphones sales in Europe have increased while feature phones sales in Europe have decreased, and the majority of our work in Cluj has been around feature phones manufacturing. This is painful but necessary, and we recognize this has a significant impact on our employees, their families and the local community. We will do our best to support our colleagues.' (*Ziarul Financiar, 2011).

Changing sector focus, if it is to look at the Romanian banking system, 90% of it is run by foreign institutions. This means that the monetary mass is highly influenced by the decisions taken in the home-countries of banking institutions. One example is the case of Greek banks present on Romanian market. Alphabank, Bancpost and Piraeus bank are the top three biggest Greek banks in Romania. Although the Greek crisis cannot affect directly the Romanian financial market, indirect effects may appear. For instance if a Romanian subsidiary of a Greek bank has problems, it won't be able to ask for additional capital from the home-country bank.

The crediting of the population at Piraeus Bank decreased by 50% in 2016. The same bank closed 10 local offices and dismissed 200 people in 2015 (Ziarul Financiar 2016).

Another way to look at the impact of FDI on host country is to analyze the effects on the country's budget. Again, in the first phase of the investment, the impact on the national budget is negative due to the fiscal incentives the state provides to foreign investors in order to attract them. Although the fiscal and financial benefits are not the primary reason foreign investors think about when deciding to make an investment, it has been demonstrated over time that those countries that constantly offered different deductions, attracted more FDI than other countries that were not so generous (Bonciu and Dinu, 2001). In this regard, in Romania, is at work the Law no. 35/1991 which stipulates the following deductions for foreign investors (in summary)[4]:

- all the assets (cars, machines, ecquipment) needed to start the business are exempted from paying custom duties and VAT;
- the raw materials and other materials needed for production in the first 2 years after the investment was made, are exempted from paying custom duties and VAT;
- depending on the nature of the business, foreign companies are exempted of paying profit tax for a period between 2 to 5 years

What is more, due to privatization and restructurations, the number of unemployed people increases. In order to streamline the activities of the former state owned companies and make business operations more efficient, the number of workers and employees needed to be decreased substantially. Hence, the budget is affected by the additional social expenses that have to be paid in the form of unemployment benefits to the ones that lost their jobs due to privatizations. Still, on the long-run, this effect can be counter balanced in the maturity phase of the investment. That is, MNC will train and hire local people which will have higher qualifications and thus, higher salaries. This will entail additional income at the state budget in the form of profit taxes and fees paid by contributors. Furthermore, higher salaries mean higher purchasing power, higher consumption and finally more VAT collected (Zaman and vasile, 2006; Coman and Strilciuc, 2009; Braniste, 2012).

[4] For a more detailed overview on the laws and government decisions regarding investments and foreign investments in Romania, see: Florin Bonciu and Marian George Dinu 'Politici si instrumente de atragere a investitiilor straine directe', Ed. Albatros, Bucuresti, 2001, pag.103

Expanding more on the issue of work force, the effects of FDIs on human resource can be both positive and negative. Comparing the entry modes of MNCs, in case of privatizations, the impact of an acquisition is rather negative in the beginning due to restructuring and efficiency-creating policies. The tensions created on the labor market due to rising unemployment are one of the negative impacts that foreign investment has over the host-country's economy. One example exhibiting negative effects of privatizations in Romania is the case of Astra vagoane Arad company which before 1989 had 16.000 employees and after the acquisition in 2006 by International Railway Systems, had in 2013 only 800 employees (Ziarul Financiar, 2013). Another example is the Steel Factory Hunedoara owned by Arcelor Mittal. If before the Revolution there used to work more than 20.000 people, in 2003, after the acquisition, the number of employees decreased sharply to 2.200 and in 2011 to 683 (Financial Magazine, 2013). Many industrial plants were heavily affected by the economic crisis from 2009-2010, but the ones that managed to survive, generally invested in the refurbishment of the factory and updating technology and equipment.

Still, if the entry-mode of the foreign company is greenfield investment, then the impact on the labor market is positive as new jobs are created. Furthermore, if the multinational corporation is producing labor-intensive goods and was attracted by the local economy due to its' relatively cheap and educated work force, then again the impact on the labor market is positive (Zaman and Vasile, 2006; Coman and Strilciuc, 2009).

In Romania, the Law no.76/2002 regarding stimulation of new jobs creation stipulates that:

- it is offered up to 50% discount for the training expenses for maximum 20% of the hired new personnel;
- provision of grant funds and preferential loans if the investment creates new jobs;
- minus 2,5 % of the percent the company has to pay to the unemployment benefit fund;

The Law 72/2007 regarding the employment of students stresses that the Romanian state pays 50% of the minimum wage in the economy for each student the new company hires for a maximum period of 60 calendar days (http://www.cdep.ro/pls/legis/legis_pck.htp_act?ida=71060).

Also, the contracts of privatizations between the state and investors were adjusted so that the staff dismissal will be made gradually over a period of 1-3 years after the takeover. In addition,

the foreign investors can choose to offer compensatory payments to the dismissed staff or commit to keep a certain percent of the existing staff for a determined post-acquisition period of time (Zaman and Vasile, 2006).

What is more, many MNCs establish a public-private partnership with local authorities if they notice a shortage of qualified labor supply needed in their area. Corporations decide to invest into educational programs which allow them to train students while still in high school/college and then hire the students when they graduate for a period of minimum two years. One powerful example is the case of Continental company, German leader in the automotive industry. In March, this year, Continental and 'Lucian Blaga' University in Sibiu, Central Romania, signed a partnership where Continental commits to invest 180.000 Euro in buying new equipment for the Engineering and Science Labs and support Faculty's development initiatives. On the Western part of the country, at the border with Hungary in Timisoara, Continental organizes 'Continental Entry Training Program' starting April 2016. The program is dedicated to all politechnic students who want to develop their auto-moto software skills. The participating students will be offered a monthly financial benefit and the opportunity to work afterwards inside the corporation (Continental Corporation, 2016).

None the less, there are successful privatizations as well. The first and foremost to be mentioned is Dacia-Renault acquisition. In 1999, when Renault Group acquired Automobile Dacia company from the Romanian state, they committed to invest 219 million dollars in the production facility. However, during 2000-2010 the sum of money invested by Renault was 1,63 billion Euros and at the end of 2012 it exceeded 2 billions. Moreover, Dacia Renault is the biggest exporter of Romania since 2012, selling 481 840 cars to external markets only in 2014(daciagroup, 2015; Ziarul Financiar, 2015). More is to be discussed in the next chapter of this paper.

A second example worth mentioning is Alro Slatina facility taken by Marco International in 2002. Currently, Alro is the biggest aluminium producer company from Central and Eastern Europe (except Russia), exporting 72% of the total production. Since its privatization, Alro Group invested over 640 million $ in new technology and the number of employees remained constantly over time, summing around 3.400 people in 2012. As far as it goes, in 2011 the amount of taxes and fees paid by Alro to the state budget accounted for 91 million $ and 2,3

million $ as local taxes (bursa, 2012). There are more successful examples and a third one will be mentioned here: the case of Petrom-OMV which is now the biggest oil group
in Southern-Eastern Europe. In the period 2004-2011 the group invested over 7.7 billion Euros in a comprehensive process of modernization and efficiency creation. Moreover, only in the first semester of 2011 Petrom OMV contributed to the Romanian state budget with 1 billion $ in form of taxes and excises (bursa, 2012).

All in all, one has to assess if the positive effects of FDI can overcome the negative ones. If we look at the numbers, these show positive economic growth - GDP of Romania increased year by year in the last 13 years and so did the foreign investments, except the years of economic crisis (2009-2010) when the GDP decreased compared to previous years, but started to increase again, overcoming in 2013 the level it had in 2008 - considered a year of economic boom in Romania (for this evolution, see Table no.4 in Appendix)

The employment rate also grew in 2015 compared to 2014 with 0.4%, reaching a percent of 61,4% amongst the age group 15-64 years old. If we look at the exports and imports of Romania as percent of GDP, one can see that on one hand the value of exports has increased while the value of imports has decreased (Table 5). However, the value of imports is still higher than the value of exports which means that Romania is still dependent on the imports of intermediary goods for the auto industry in order to produce and export later. For an overview of top Romanian exporters see Figure 4 in Appendix. Moreover, the tendency to export raw materials and import finished goods (available especially in agriculture and textile industry) that have a higher added value incline the commercial balance in favor of imports.

Table 6: Exports and Imports of goods and services in % of GDP between 2004 and 2015

Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Exports	35.6	32.9	32.1	29.1	26.9	27.4	32.3	36.8	37.5	39.7	41.2[p]	41
Imports	44.6	43	44	43.4	40.2	33.8	38.4	42.4	42.4	40.5	41.5[p]	41.6

Source: Eurostat

To summarize the answers to the first research question, the downsides of FDI in Romania are:

- increase the disparities between poor and rich regions of the country
- create monopolistic advantages for foreign firms (higher tariffs for customers, lack of diversity)
- increased imports that negatively affect the balance of payments
- negative impact on the state budget
- increased rate of unemployment due to privatizations
- higher dependency on foreign decisions

Note that some of these downsides may appear only in the first phase of the investment, because for instance, on long term, the impact on the state budget is positive due to more taxes and fees paid by companies and employees; the same stands true for the unemployment. Although in the beginning people lose their jobs due to restructurations, on long-term new jobs are created if the privatization is a success. Direct and indirect links are created with stakeholders if the company develops. New suppliers or distributors may appear and also new people get hired by the mother-company in good case scenarios (OECD, 2011).

Moving on to the upsides of FDIs in Romania, the next facts follow:

- regional development
- increased product/service diversity (when the foreign firm holds a share of the market, but not all of it)
- new jobs creation
- restructuration of obsolete machinery and technological update
- increased specialization of the labor force
- increase in exports
- economic growth
- development of new regulatory policies and laws

There are always two sides of the same coin and the advantages and disadvantages of foreign investments are different from country to country. However, for Romania, the positive impacts of FDI outrun the negative ones, because without the FDI done in the country so far, Romania would have been less developed. Most of the private investments belong to foreign entities, and these are the ones that account for most of the country's production and exports. Unfortunately,

the Romanian state doesn't have a clear and sustainable plan drawn in regards to domestic investments and the entrepreneurial spirit in the country is still underdeveloped (Sirbu, 2014).

Chapter 5. Study - case: The acquisition of Dacia Automobile by Renault Group

In this chapter, Dacia company will be analyzed before and after the acquisition by Renault Group in order to see in which way this acquisition affected Romania and the auto industry. First, a short presentation about mergers and acquisitions is displayed and then, chronologically, the evolution of Dacia since its conception in 1966 until present days.

5.1 Mergers & Acquisitions Theory

Although many times the terms ‘mergers’ and ‘acquisitions’ are used interchangeably, it is important to highlight the difference between the two. According to Gaughan (2011, p.12) ‘A merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence’. In a merger situation, the buying company assumes also the assets and liabilities of the acquiree and the former owners may still be involved in the management team. On long-term, synergy effects are expected out of the merging decision. Yet, an acquisition is performed when a company buys the assets of another one and the owners of the latter are paid off, without being involved anymore in the future decision making process. The buyer can purchase a ‘plant, a division or even an entire company’ (Sherman, 2011, p.3). Many times it is cheaper and faster to acquire a certain product/technology/capability than develop it internally. When referring to cross-border M&As, it means that the companies involved in the transaction have headquarters situated in different countries (OECD, 2000; Shimizu et.al., 2004).

Cross-border mergers and acquisitions dominate the share of foreign direct investments, accounting for more than 85% of total FDI undertaken around the world (OECD, 2000; UNCTAD, 2011). Figure no. X shows the value of cross-border M&As from 2005 to 2015, expressed in billions of US dollars:

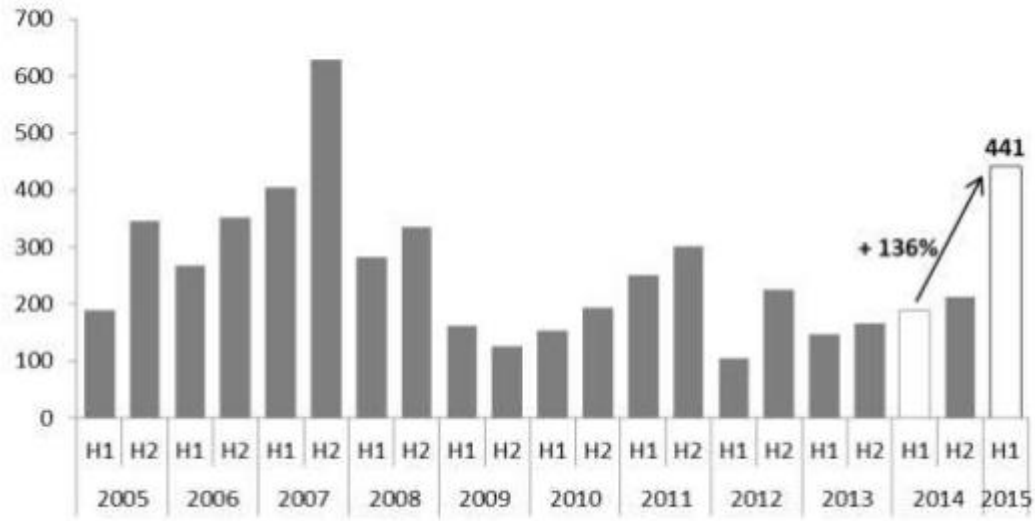

Figure 5: Evolution of cross-border mergers and acquisitions worldwide; value in billion Euro; H1 – first half of the year

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics)

From the figure above it can be seen that just in one year, the total value of cross-border M&As more than doubled, confirming the accelerated pace with which M&As reshape the industrial structure worldwide. The value of net purchases reached 441 billion $ in the first semester of 2015, being the highest value after the crisis in 2007 (UNCTAD, 2015). Among driving factors are the prolonged economic growth, globalization of financial markets, international competition and technological development. MNCs seek to diversify their activities, exploit new market opportunities or streamline their operations. However, more than efficiency-seeking and market-seeking motives, scholars claim that the main driving force behind cross-border M&As is the acquisition of strategic intangible assets like new knowledge and capabilities, brand names and the like (OECD, 2000; Shimizu et.al., 2004).

There are three types of mergers and acquisitions claimed in the literature as follows (Gaughan, 2011):

- Horizontal: between two competitors
- Vertical: between companies that have a buyer-seller relationship or other value chain linkages
- Conglomerate: between companies from different industries

5.2 Overview of the auto industry

The automotive industry is one of the top industries facing the largest cross-border mergers and acquisitions along natural resource, pharma, finance or telecommunications industries. In their efforts to 'to strengthen global competitiveness in their core businesses through cross-border M&As' and reduce the accelerated international competition, many giants of the industry decide to engage in M&A transactions' (OECD, 2000, p.8). Even though empirical evidence showed that more than half of M&As rather fail to reach the targeted goal and create shareholder value, companies are still bought and sold at huge values with the hope that positive outcomes will exceed the costs of transaction (Shimizu et.al., 2004; Papadakis, 2007).

One of the most popular examples of M&A failure is Daimler-Chrysler merger. In 1998 the German producer entered a merger of equals with the Americans from Chrysler for a deal worth 39 billion $ (OECD, 2000). Daimler's purpose of the merger was to diversify their product portfolio, achieve cost savings and enter new markets. Yet, the expectations were not met. The new company, DaimlerChrysler AG, faced substantial losses because of decreasing market share in US, the falling of the stock price and inability to achieve efficiency targets. Moreover, their core product - Mercedes- experienced a significant decrease in sales due to quality issues and overall it was estimated that this merger cost the German auto makers 25.7 billion $. Mismanagement and cultural differences were also pointed to have contributed to the fiasco (Vu et.al., 2009; Papadakis, 2007).

A second worth mentioning example is the 1.7 billion $ takeover of British producer Rover by the Bavarian automakers from BMW in 1994. BMW was operating at that time in the range of high quality sports car, while Rover was one of the most appreciated brands in off-roads vehicles segment. Thus the German producers acquired Rover in order to diversify their portfolio, but they didn't pay attention at the due diligence process, signing the deal with the British company after only 10 days (Donnelly and Morris, 2002). However, BMW overestimated the Rover brand - the British company was having financial problems and was relying a lot on its' partner Honda for design and engineering. In 2000, BMW ceased the contract with Rover. However at that time, the merged company was facing losses of 2 million pounds every day and a decline in market share below 6% (Donnelly and Morris, 2002).

On the other hand, there are also cases of successful M&As. For instance Volkswagen Group owns today brands like Audi, Seat or Skoda. The trick that lead to the success was that in order to avoid direct competition, Volkswagen maintained the distinct profiles of each brand to which it added the German quality feature. Thus, Seat remained the sport car for young people and Skoda an affordable car designed for the Central Eastern European bloc that now benefit from Volkswagen's technology and high quality (Janovskaia, 2008).

In CEE countries the auto-moto sector accounts for most of the foreign direct investments flowing in the region. What is more, the investments made by automobile producers are sometimes the largest and single investment ever made into a specific country. For instance, in Czech Republic between 1990-1993 the automotive related FDI represented 25% of total FDI done in the country (Van Tulder and Ruigrok, 1998). As most of CEE countries owned national car manufacturers before the Iron Curtain fell, these independent producers were acquired in the last two decades by western producers. Thus, rather than greenfield investments, the majority of FDI into the region were takeovers of former state-owned companies due to privatizations (excluding Russia).

The same scenario applies also to Dacia acquisition by Renault Group which will be further presented.

5.3 The history of Automobile Dacia

5.3.1 Dacia stand alone

The story of Dacia traces back 50 years ago, in 1966, when the Romanian authorities signed an agreement with the French automaker Renault which allowed the first ones to produce a middle class car under Renault's license. Thus, the construction of Automobile Pitesti plant started in Mioveni, Arges County and finished after only one year and a half. In 1968 the first model under Dacia brand is released on the Romanian market, the Dacia 1100. Then, in 1969 the second and most prolific model of the Romanian automakers enters the market - Dacia 1300- under Renault R12 license. Dacia 1300 and its stylized 1310 model are presented also at Paris and Bucharest showrooms and are sold in England as well under the name Dacia Denem (Aldea, 2011).

Several models are produced meanwhile, until 1978 when the licensing agreement with Renault reached its maturity. Then, in 1985, the engineers from Dacia start the design of the first entirely Romanian car model. The new model - Dacia Nova however was launched only 10 years later. Although Dacia exported some of the production, the bulk of cars was designed for the Romanian market. Yet, both domestic- and export-designed assembly lines had a questionable quality. The plant in Pitesti produced everything from spare parts to finished car, regardless the quality of raw materials. When there were problems with aluminium imports, the engineers from Dacia had to find a replacement material in order to keep the production at the same level. Hence, the overall quality of the vehicle decreased substantially, but since it was the only brand available on the Romanian market, people got used to it despite its technical shortcomings (Aldea, 2011; https://www.theguardian.com/business/2014/oct/21/dacia-romania-car-maker-europe-sales).

Once with Dacia Nova model released in 1995, the second phase in the history of Dacia began. The 100% Romanian car had front-wheel drive, 5 seats and 5 doors and was able to reach 160 km/h maximum speed. Exports were limited to neighbor markets like Bulgaria, Hungary, Serbia and later Turkey (Aldea, 2011). In 1998, after three decades, Automobile Pitesti plant releases the car number 2,000,000. One year later, the factory was producing 86,000 cars / year by the 30,000 workers employed at Dacia. Less than 5% of the production was sent to export (capital, 2011; The Guardian, 2014)

5.3.2 Dacia under Renault ownership

The year 1999 is the stepping stone in the history of the Romanian producer. Renault Group decides to buy 51% of Automobile Dacia shares and today it owns 99.43% of the company (Constantinescu, Dragoi, & Goldbach, 2010; https://group.renault.com/en/our-company/our-brands/brands/). The French group represented at that time by Nicolas Maure, CEO, motivated the decision of acquiring Dacia as follows: ‘Dacia had an ageing lineup and couldn’t export any more. Volumes were falling and they were looking for a way to recover.’ (The Guardian, 2014).

Moreover, after the success of Skoda bought by Volkswagen, Renault wanted to enter the low-cost car segment in developing markets. The idea was to create a car with minimum costs but in the same time maintain the reliability of the product. The target markets of the car were limited to Romania and Central and Eastern European countries. No one would predict the tremendous success that was about to come. As Philippe Houchois, analyst at UBS, puts it referring to the balance between price and quality 'The initial concept was perhaps a bit dull and boring, but it did the job' (The Guardian, 2014)

Right after the acquisition, Renault invested over 2.2 billion Euro in updating the facility and product lines. Throughout the years, from 2000 to 2015, more than 2 billions Euro were additionally invested in equipments, infrastructure and human resource (Aldea, 2011; Ziarul Financiar, 2016). Further details will be provided later in the section dedicated to the analysis of the acquisition's impact.

New passenger car models were launched since the acquisition until nowadays and the main ones will be presented below:

Dacia SuperNova & Dacia Solenza

Dacia SuperNova was an upgraded version of the former Dacia Nova equipped with 1,4 liter engine and Renault powerplant. The model was released on the market in 2000 and was received with a lot of enthusiasm. It was the first Dacia model equipped with air-conditioning and which corresponded to Euro2 norms. The sales increased with 31% compared to the previous year, being bought over 22,000 cars by Romanian citizens. Still, after three years the model was further improved, leading to the creation of Dacia Solenza. This model brought up a more resistant structure, air bags for the driver and significant changes in the design that turned Solenza into a more appealing autovehicle. However, in 2005 the production stopped, not before reaching sales of 80,000 cars in the two years, from which more than 20,000 went to export (Aldea, 2011).

Dacia Logan

Dacia Logan can be considered the model that rewrote the history of Dacia and was a turning point for the entire company. Released in 2004, it was the first model able to compete on Western markets and is also considered to be the first low-cost brand of Europe. The Logan's

average price is around 6,400 Euro, depending on its customizations. Solely between September and December 2004, Dacia sold 40,000 Logans, of which 60% in Romania (The Guardian, 2014). Over time different derivative Logan models appeared like Dacia Logan MCV, Dacia Logan Van (commercial vehicle), Dacia Logan Pick-up, New Logan MCV. Table X below shows the number of different Dacia models sold in Romania in 2014 and 2015. As one can see, Logan comes first in the preferences of Romanian customers and both Logan and its derivatives faced sales increases from one year to the other. Moreover, in Figure 6 are displayed the top five best selling cars of Renault Group in 2015 and Dacia Logan comes forth in the queue, right after its 'sisters' Duster and Sandero.

In extra-continental countries like Colombia, Venezuela, Russia, Iran, Argentina, Brazil, or Ecuador, Dacia Logan was branded as Renault, having the front and back logos like Renault cars do (rhomb-shaped). In European countries, the car was sold however under the brand of Dacia (Aldea, 2011). Once the exports started, the sales grew more than 10% per year since, selling to local market only 5% of the total production. From 2004 til 2012, Dacia produced 1,5 million units of Logan. The model brought to the French group more than 15 billion Euro revenues and it took Dacia on a growing path so that 8% of total Romania's exports were done by the Romanian auto-maker. Moreover, it represented 3% of Romania's GDP in 2012 (Financial Magazine, 2012).

Dacia Logan was very appreciated overseas as well. In 2011 it ranked 2nd place in the "Legends on Wheels" award for the decade '2000' and also according to J.D. Power Customer Satisfaction Survey it was classified the Best in Small Cars Class by French customers (Lindersdacia.ie).

Table 7: Units of Dacia cars sold in Romania by model in 2014 and 2015

Model	**Units sold 2015**	**Units sold 2014**
Sandero (incl.Stepway)	5 562	4 957
Logan sedan	16 119	11 349
Logan MCV	3 111	2 646
Dokker	2 003	1 700
Lodgy	697	638

Duster	7 271	6 134
Dokker VAN	2 183	2 201
Total	**36 946**	**29 625**

Source: daciagroup.com

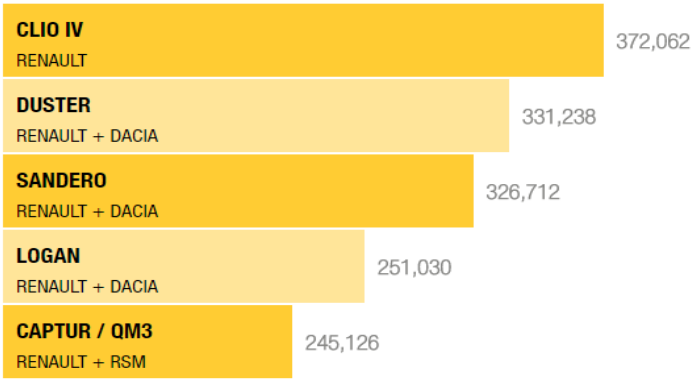

Figure 6: Top five best selling cars of Renault Group in 2015 + number of units sold

Source: Renault Group - Annual Report

Dacia Sandero

The fifth model of the range and the smallest one, Dacia Sandero is the first hatchback model ever built by the car maker. Having as target segment young and pragmatic customers, it addresses more to a feminine clientele. The standard price is around 6,900 Euro and at first, after it was released in 2007 at Geneva Motor Show, it was sold on Brazilian and Argentinian markets. In 2008 it started to be commercialized on European market as well (including Romania) (daciagroup.com, Aldea, 2011). At the beginning of 2013 Sandero was the best-selling car in Spain (romanialibera.ro).

Having as motto 'Dacia Sandero, a fabulous presence' comes out of its crash tests with the independent road safety body EuroNCAP with a three-star rating. Dacia Sandero's safety pack (comprising pyrotechnic pretensioners and new-generation headrests at the front seats along with head/thorax side airbags,) gave it a passive safety level equivalent to four out of five EuroNCAP stars (31 points from 37) (daciagroup.com). Moreover, as Table X above shows, Sandero ranks on third place in terms of units sold in 2015 both on the Romanian market and from Renault's portfolio.

Dacia Duster

The first off-road model from Dacia's portfolio and the 6th in Dacia Range, Dacia Duster was launched in April 2010. Born from the collaboration between Renault Technologies Romania (RTR) and Le Losange Renault Tehnocentre in France, Dacia Duster continues the philosophy of the brand: reliability at an affordable price. The model offers unbeatable interior space, low running and maintenance costs and high levels of safety (daciagroup.com, 2010).

At first, the all-terrain vehicle was designed to meet the demand of emerging-markets customers. For example, in Russia, Brazil and other extra-continental developing countries, the need of middle class people was for a modern car, able to reflect their social status but in the same time to be also reliable and versatile, adapted to extreme climate conditions. In Europe, there was an unmet need for modern, reliable and affordable cars. Although SUV models are quite diverse, most of them are very expensive and often poorly adapted to all-terrain use (daciagroup.com, 2010).

In order to produce the Duster, the Pitesti factory needed several modifications at the production line. 'A new body shop was built specifically for this model; the assembly line was modified for the new powertrains and 4x4 running gear, while revisions were made to the supply logistics and storage of raw materials in the metal stamping process, in line with the overall factory management scheme. In all, six different body styles are now produced on the same assembly line'(daciagroup.com, 2010). By locating the production line inside the plant, made it also easier to train the staff. In total, 290 million Euros were invested in the factory in order to be able to produce the Duster, out of which 70 million Euro went into the production facility. The rest included the costs of the new TL8 gearbox and engines corresponding to Euro4 and 5 norms. The maximum production capacity is 25 Dusters/hour and the overall capacity of the Pitesti plant is 350,000 Dacia cars/year.

Coming with different customizations, 4x4 or 4x2 specifications, wax-injected underbody and opening panel hollow sections, mastic sealing of exterior joints, additional wax treatment of underbody mechanical components, stone chip protection for underbody, sills and wheel arches, the entry price was 11,900 Euro (for 4x2) and 13,900 Euro (for 4x4).[5] Among export markets, one can find in 2010 Ukraine, the Middle East (Jordan, Syria, Lebanon and Egypt) and other

[5] For more technical details and model specifications, visit daciagroup.com

African countries where Duster is branded as Renault. In 2011, to these countries are added Brazil, Russia and the Gulf states.

As awards received by Dacia Duster, here are some of them from 2011:

- 2011 4×4 of the Year – 4×4 magazine (France)
- – 2011 4×4 of the Year – L'Automobile magazine (France)
- – 2011 Car of the Year – Croatia
- – 2011 Winner of "Autobest 2011" (Germany)
- – 2011 « 2011 Trophée de l'Argus » (France)
- – 2011 Duster, Sandero Steway, Logan MCV : „Wertmeister 2011"(Germany)

As can be seen in Figure X, Dacia Duster ranks second in best-selling passenger cars from Renault's portfolio in 2015 and also second from Dacia's portfolio on the Romanian market last year.

5.4. Case analysis

In the past five years, Dacia broke record after record. In 2010, German customers voted Dacia their second favorite manufacturer in the J.D. Power Customer Satisfaction Survey, just behind Audi and ahead of Mercedes-Benz (lindersdacia.ie, 2011). In 2011, the Romanian market for new automobiles decreased by 8%, because the country was still trying to recover after the economic crisis that hit the world in 2008. However, Dacia managed to sell 30 867 vehicles, attaining a market share of 28.9 %. To this contributed also the national program for auto fleet renewal 'Rabla'[6]. Still, the external market sales were more dynamic and for instance in Italy, Dacia registered a 15% increase that year.

2012 was an important year for the Romanian auto-maker. Firstly, 6 new models were launched, customized versions of Logan, Sandero and Sandero Stepway. In addition, the brand entered new market segments like the ones for family cars (Dacia Lodgy) and commercial cars (Dacia Dokker and Dacia Dokker Van) (daciagroup.com).

[6] 'Rabla' is a governmental program initiated by the Ministry of Environment in 2005. The purpose of the program is to get rid of old and very polluting cars by replacing them with new and more environmental friendly ones. The persons that want to participate in the program have to prove they legally decommissioned their old vehicle in order to be entitled to receive a state discount in value of 1,500 Euro when buying a new car (http://www.conso.ro/ghid/programul-rabla/ce-este-programul-rabla).

In Romania, the situation of the auto market was still volatile back then as the economic situation was yet uncertain. Moreover, the restriction on the credit market affected mostly the individual consumer which was no longer able to obtain a loan as easy as before the crisis. Since this segment used to be the most important for Dacia, the brand faced decreases in sales on the local market. However, even in this unfavorable context, Dacia managed to maintain its market leader position, achieving more than 26% from the total number of new cars sold in Romania in 2012 (daciagroup.com). On cross-border markets, the situation was better, the Romanian producer selling with 8% more cars than in 2011.

One year later, when in Romania the demand for new vehicles was at its lowest level since 2000 and both Europe and Eurasia zone recorded decreasing demands (-1,7%, respectively -3%), Dacia launches new models of Logan MCV and Duster. In Romania, the sales increased with 12,4 %, reaching 31,6% market share. What is more, the strong increase in the proportion of corporate customers contributed to this success (currently, this category represents 77% of total customers).

In 2014, Dacia reaches the performance of selling more than half a million cars in total, converting it into the highest sales increase brand in Western Europe. In Romania, each Dacia model was a leader in its segment and the brand registered a 19% increase in sales compared to 2013. The same percent increase was also available for external markets, France and Germany being the primarily export markets for the Romanian auto-maker in 2014 (daciagroup.com).

Finally, last year, were sold 513,974 Dacia cars worldwide (excluding Romania), an increase with 6% compared to 2014. France, the first country of the list in terms of Dacia cars bought, accounts for 4,36% of Dacia's market share, making Dacia the fifth best-selling brand in the region, right after Volkswagen. In Spain, the market share of Dacia was 4,6 % in 2015. Spain comes as a surprise in terms of sales, because from 2011 until 2014 the top two external markets for Dacia were France and Germany. See Figure X below for an overview of Dacia's sales evolution.

In Romania, Logan was the flag carrier of the brand, with more than 43% of total sales in the country. Supported also by the national program 'Rabla' which meant 11 500 Dacia cars sold locally, the Romanian brand consolidates again in 2015 its market leader position (daciagroup.com).

Overall, the top 10 markets where Dacia exported its cars in 2015 can be seen in Table no. 9 below[7]:

Table 9: Top ten countries where Dacia cars were exported in 2015

Country	Units sold
1. France	100 035
2. Spain	55 168
3. Germany	47 453
4. Italy	46 792
5. Turkey	44 812
6. Algeria	40 688
7. Morocco	37 392
8. Great Britain	26 267
9. Belgium	17 000
10. Poland	14 906

Source: daciagroup.com

The next Table and Figure 7 provide an overview of the sales evolution of Dacia in total from 2011 to 2015, both in Romania and in external markets:

Table 10: Evolution of Dacia sales for the past 5 years

Year	Total units sold	Romania sales	External markets sales
2011	343 233	30 867	312 366
2012	359 822	22 148	337 674
2013	429 540	24 890	404 000
2014	511 465	29 625	481 840
2015	520 920	36 946	513 974

Source: daciagroup.com

[7] Table 8 with top ten export countries for Dacia from 2011 til 2014 can be find in the Appendix

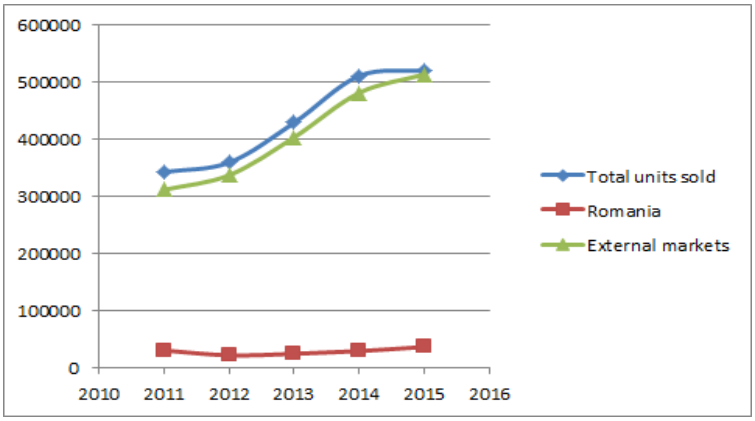

Figure 7: Evolution of Dacia sales for the past five years, own creation

The perspective for 2016 is positive, Dacia continuing to maintain the market leader position it has in Romania. In addition, new versions of Sandero and Logan equipped with pilot transmission are to be launched. Nicolas Vertans, in charge of Renault Group SVP Global Sales, explains all the achievements of Dacia as follows: 'The Dacia brand has built a strong bond with its customers based on a sense of confidence and proximity. This success is also due to a clear, straightforward pledge that fits perfectly with the expectations of motorists looking for a safe, reliable vehicle with a modern equipment and performance package at an affordable price.' (daciagroup.com)

5.4.1 Which spillover effects appeared after the acquisition of Dacia by Renault in Romania?

After seeing all the figures and numbers, one might ask if the great results exhibited by Dacia go beyond the company and reflect also in the auto industry and in Romania as well. Did appear new local companies due to Dacia's expansion? Did Romania experience economic growth after the above mentioned acquisition? These and other questions will be answered in the present chapter.

5.4.1.1 Labor Productivity spillovers

It has been discussed in the literature that one way in which foreign firms might positively influence domestic owned ones is through labor productivity spillovers. In other words, local firms could exhibit productivity increases/worker due to the need to compete with foreign firms or due to their desire to establish backward or forward relationships with MNCs.

The data shows that in Romania the average productivity increased with 20% between 2010-2015, making Romania the country with the biggest increase, while the average in the EU is of only 3%. Right after Romania comes Latvia and Ireland with 13% and then Bulgaria, with 12%. (see Table 10 below)

Table 11: Real labor productivity per person employed from 2002 to 2015 in Romania; 2010 is taken as a reference year having the value 100[8]

Year	02	03	04	05	06	07	08	09	**10**	11	12	13	14	15
Value	69.5	73.4	80.9	85.6	91.8	97.8	106	105	**100**	101.9	107.7	112.5	114.9	120.3

Source: Eurostat

According to the Association of Automotive Manufacturers in Romania, in the first semester of 2015, Romania joined the top 10 European car manufacturers (Figure 8 below).

[8] [1] The labour productivity = GDP/ETO with

GDP = Gross domestic product, chain-linked volumes; reference year 2010

ETO = Total employment, all industries, in persons

The GDP per person employed is intended to give an overall impression of the productivity of national economies expressed in relation to the European Union (EU28) average. If the index of a country is higher than 100, this country's level of GDP per person employed is higher than the EU average and vice versa. Data are expressed as percentage change comparing year Y with year Y-1 and as Index 2010. (ec.europa.eu)

	H1 2015[8]	H1 2014	% change 2015/2014
Germany	2,822,206	2,833,471	-0.4
Spain	1,163,258	971,860	+19.7
France	805,054	813,939	-1.1
United Kingdom	794,517	791,801	+0.3
Czech Republic	634,873	572,499	+10.9
Slovakia	490,379	471,429	+4.0
Italy	342,425	215,993	+58.5
Poland	267,775	215,722	+24.1
Hungary	259,835	227,999	+14.0
Romania	212,433	210,519	+0.9
EU	8,332,240	7,872,386	+5.8

Figure 8: Top ten European car manufacturers
Source: ACAROM (2015)

However, labor productivity in Romania is still six times lower than EU average. In comparison with Germany is 7.5 times lower and compared to Netherlands is 8 times lower. These countries are examples of very productive economies for years now, having already set the bar very high, so their increases are smaller. The good results Romania exhibits for the last 5 years arose because the country started at the bottom of the rank, having high potential for development. Although Romania is the first in EU at number of hours an employee works / week (41,2 hours/week; it can reach up to 48 adding the supplementary hours)[9], the value added/employee is lower compared with developed countries. That happens because in Romania the activities that add a higher value (like R&D) to a finished product are still at a low level compared with Germany for instance. The labor cost in the manufacturing industry is today 4,9 Euro/hour (ttonline.ro).

The two sectors that recorded the best productivity improvements are the manufacturing and real estate sectors. Moreover, the manufacturing industry is now the main driving force of exports. The explanation offered by European Commission in Romania's country report (2015) is that the

[9] In comparison, in UK there are 40,8 hours/week, in Germany - 40,5 hours/week, Bulgaria – 40,2 hours/week and Finland – 37,6 hours/week.

manufacturing industry advanced in the last decade along the value chain and, beyond assembling activities, in Romania started to grow more and more the Research and Development activities. The share of high-tech products in total exports increased significantly compared to a decade ago. Yet, the average is still low compared to EU average. In 2012, the R&D related expenses of firms equaled 0.19% of GDP which is seven times lower than the European average (ec.europa.eu, 2015).

If it is to correlate these results with the presence of Renault in Romania, the French group invested more than 2 billion Euro in the country since 1999. According to Cristian Negoita, a 25-year company veteran, before Renault took over Dacia, the state owned company was producing 110.000 cars / year with 30.000 employees. In 2014, the auto company produced 340.000 cars with 14.000 employees (The Guardian, 2014). It is clear that the technological update and the superior management style brought a revival at Dacia. Today Dacia-Renault is the biggest company in Romania and in Southern-Eastern Europe in terms of turnover (around 4.5 billion Euro in 2015) and together with Ford, it realized last year half of Romania's exports in total value of 18,7 billion Euro (Ziarul Financiar, 2015).

According to global trends, auto components manufacturing companies focused on innovation are considered to be more profitable than those specialized in certain technologies. This is because components innovation enables multiple use of their assemblies. In addition, innovation provides flexible adaptation to new market requirements and allows control over the upstream value-added chain and hence over costs. At Dacia, new investments were announced in ecologic engines development, state-of-art gearboxes and the expansion of robotic machines from 5% to 20% until 2020 (ttonline.ro). Yet, given the investments into more high-tech products, Romania is still behind similar countries in CEE like Hungary, Slovakia or Czech Republic. 'Productivity in the Romanian auto parts industry compares badly with its peers in central Europe. At just €12,100 per employee per annum in 2013, the value of output per worker was barely half that of neighboring Hungary and lags even further behind the Czech Republic, the regional leader, which claims €28,100.' (ft.com, 2015). That means there is a lot of potential for development and analysts agree that it will require a collective effort between local producers, authorities and University centers.

5.4.1.2 Vertical and horizontal spillovers

Strongly related with productivity spillovers are the vertical and horizontal spillovers. As Dacia company grows more and more so does it's need for building strong backward and forward linkages with suppliers and distributors.
In the last 16 years, many local firms started up business in the automotive industry or expanded due to Dacia's growth. Besides that, also foreign investments were attracted in the region that today are among Dacia's top suppliers.

At first, let us take the case of Romanian companies. Only in Arges county (the county where Dacia plant is located) there are 150 service suppliers that together had a turnover of 200 million Euro in 2014 only from their contracts with Dacia. Moreover, there are an additional 40 auto parts suppliers which had in the same year 600 million Euro turnover out of the contracts with Dacia. In total, Antoine Aoun - procurement director at Renault Group Romania estimates that Dacia has in Romania around 2000 suppliers. Out of these, 600-650 are service suppliers that provide energy, construction, logistics or catering services. The rest are suppliers that deliver car parts which are integrated into vehicles, engines, gearboxes (agerpres.ro, 2014).

Beyond Arges county, the Romanian-French automaker has suppliers all over the country in cities like Timișoara, Arad, Oradea, Deva, Satu Mare, Cluj, Sibiu, Brasov, Ploiești, Galati and Titu. In Timisoara (Western Romania), one of Dacia's suppliers in terms of optical devices and lighting equipment is Elba company. The general manager of the Western facility, Dorel Cocian, admits that in 2015 the company had total sales of 45 million Euro, an increase with 7% compared to 2014. Elba's Mr Cocian credits the Renault Group not only for making Dacia an important demand source for locally produced components, but also for establishing an international distribution center that sources and exports parts to its global car plant network (ft.com, 2015). Other local manufacturers like GIC, Ronera, COMPA, ELJ, Componente Auto, Metaplast & Delta Invest started investing in innovative products and technology modernization (thebrc.co.uk, 2016).

All in all, the development of suppliers network is estimated by the Automotive Manufacturers Association in Romania (ACAROM, 2014) to have created 130.000 new jobs in the country. Out of these, 10.000 are just in Arges county. When choosing the right suppliers, the criteria is set by

Renault-Nissan Purchasing Organization and concerns the quality of products and management, financial sustainability of the supplier and its location. The last criteria is a very important one, the closer the supplier to the production facility the better. Actually, the biggest suppliers of Dacia are located in Arges and some of them are right inside the industrial area where Dacia operates. The Arges suppliers provide the factory with automobile seats, plastic parts such as surfboards or shielding board, fabrics, upholstery and carpets as well as air conditioning systems, parts of the electrical system and security, wiring, metal table or pipes (agerpres.ro, 2014).

If it is to look at foreign companies established in Romania that supply the automotive industry, their number is above 150. For instance, one of the biggest suppliers for Dacia (providing car seats) is the USA based multinational, Johnson Controls. This company started the collaboration with Dacia once it was acquired by Renault Group, as Razvan Budinca states - the director of Johnson Controls plant in Mioveni, Arges County (agerpres.ro, 2014). They started operating on the Romanian market in 2000, providing automobile seats mainly for Dacia, but also for other companies. Since then, they opened 4 factories in Arges region, manufacturing metal seat structures, seat sponge, and chair covers. As Razvan Budica further postulates, the first project in collaboration with Dacia meant creating the seats for Dacia Solenza and one year later, for the glorious Logan. The increasing automobiles production over the years directly affected the workload at Johnson Control, which followed the growing trend, so that in 2013 they delivered 345.000 complete seat packs. This turned them into one of the biggest employers in the Arges area - more than 4200 employees (agerpres.ro, 2014).

But they are not the only ones. The Germans from Leoni have three plants in Romania (in Bistrita, Arad and Pitesti), being employer for more than 16.000 people (ft.com, 2015). In 2012 their turnover in the country was 73 million Euro and they supply to Dacia everything in terms of wiring systems (Dumitrescu and Beldescu, 2012).[10] What is more, the investments these companies make are not only in production facilities, but also in Research and Development centers. Another German owned multinational company, Continental, has invested around 1 billion Euro in seven production sites and three research and development centers across the

[10] For more information about Dacia suppliers, in Appendix, one can see Table 12 where both Romanian and foreign suppliers for Dacia are listed, divided by the products they provide to the Romanian factory.

country since 2000. In 2015, it had 16.500 employees and it plans to employ 1000 more this year because it will expand the electronics production plant in Timisoara. There, they will develop software systems for future autonomous cars (Financial magazine, 2016). Star Transmission, a subsidiary of Daimler also announced in 2015 a 300 million Euro investment of a third production facility in Sebes (central Romania) where they will produce nine-speed 9G-Tronic automatic transmission (ft.com, 2015).

Other companies recently involved in producing high-tech products for the auto industry (microelectronics and mechatronics) are: Bosch, Infineon, Delphi, Draxlmaier, Kendrion which are also engaged in R&D activities. Moreover, new local companies appeared involved in expanding the digitalisation of the sector: Magic Engineering, Caelynx /Dassault, ADA Computers /Siemens., AS Systems, INAS and more. Other indigenous companies invested more in product innovation and technology updation: GIC , Ronera, Elba, COMPA, ELJ, Componente auto, Metaplast, Delta Invest etc. Both domestic and foreign new firms dealing with complex technologies and automotive plastics, rubber and composites came out in Banat, Transylvania and Arges (ACAROM, 2016).

Overall, the automotive industry in Romania has in total 203.600 direct employees working in over 600 auto-profile companies. In 10 years, the local automotive industry turnover increased from 3.8 billion Euro in 2005 to 18 billion Euro in 2015. Only the car parts production accounted for 12.5 billion Euro in 2014 (in 2011 it sum up to 7.64 billion Euro) and it’s estimated that until 2020 it will reach 20 billions (capital.ro, 2015; Financial magazine.ro, 2015).

5.4.1.3 Labor force spillovers

According to daciagroup.com, Renault Romania offers a full range of professions in the car industry, having as main activities:

- Design: Renault Design Central Europe (Bucharest)
- Engineering: Renault Technologie Roumanie (including the Technical Centre Titu)
- Production: Dacia Mioveni Plants, Logistics Direction (including International Logistic Center), Dacia Moulds (Piteşti)

- Trading and funding, post-sale services: Renault Commercial Romania (including the Spare Part Centre in Oarja)

Renault Romania employees over 17.000 people out of which 31% are women. It has been previously discussed the technological investments Dacia Renault made in Romania. In addition to that, from 2000 to 2012, the Group invested over 35 million Euro in employee's training, resulting in 5.5 million hours of courses (mediafax.ro, 2012). Renault Dacia has created a complex training system in the country, consisting of two training and formation centers at Mioveni and Bucharest, 520 internal trainers, 13 skills and handiness schools, and 11 DOJO co-working spaces for security, quality assurance and environmental fields. Trainings are offered both to new employees and more experienced ones. For the first group are offered professional integration trainings and then job-related courses, while the latter group is periodically put up to date with what's new in their working field and prepared to be ready to handle the international expansion the company. Only in 2011, were provided 520,000 training hours for 15,200 employees. 69% of these were offered by internal specialists while for the rest, Dacia contracted 36 training providers from all over Romania. An important role plays also the language courses organized for employees. Last year, 80,000 hours were completed for courses in French and English for 2,098 employees (mediafax.ro, 2012).

Renault Romania has also developed 'Drive Your Future' program, dedicated to University students. Each year, more than 100 students benefit from the 3 months paid internship and ⅓ of them got to be employed within the company after graduation. In addition, Dacia and Renault Group together with France Embassy in Romania are financing a scholarship program for training professionals in the automotive industry (daciagroup.com, 2014).

One example of a good case scenario is the one of engineer Constantin Stroe. Former CEO and current member of the Board of Directors of the company Automobile Dacia S.A., he has been working within the firm for more than 30 years. Today, he is also the chairman of ACAROM, the Association of Automotive Manufacturers of Romania. The Association gathers 142 commercial companies and among other activities, it difuses norms and reglementations in the automotive sector. ACAROM offers consultance and assistence to the members for solving different issues, concerning: legislation, personnel training by training courses, expertise, obtaining financing through Government programs (ACAROM, 2015).

5.4.1.4 Exports spillovers

In Table 9 presented earlier, is displayed the evolution of Dacia's sales to other countries than Romania, showing an increase in the last five years. In 2015, the brand managed to export more than half million passenger cars to EU and non-EU countries. Compared to the pre-acquisition period, when Dacia used to export less than 5% of the production, nowadays more than 90% of the production goes to export (Ziarul Financiar, 2015).

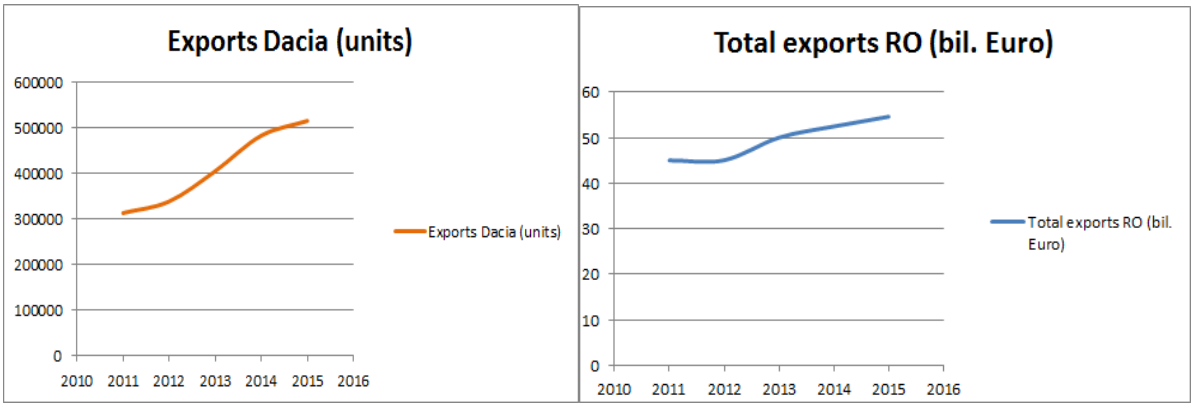

Figure 9 and 10: Evolution of Dacia's exports (units sold) and total exports of Romania (billion dollars), own creation

As we can see in the two Figures above, the exports of Romania as well as the exports of Dacia increased in the last five years. If in 1991 the total goods and services exported had a value of 3.4 billion Euro, in 2011 they exceeded 45 billions, so that in 2015 they would reach a total value of 54.6 billion Euro. That is a 16 times increase over a period of 25 years. 2009 was the first year when the Romanian-French auto maker became the biggest exporter of Romania, after a long period in which the top was dominated by oil companies. In 2009 Dacia sold 270.000 cars to external markets out of which 200.962 were in Western Europe, Germany, France and Italy being the top three buying countries. Since then, Dacia remained the biggest exporter of Romania, year after year, so that in 2015 it sent to export 513.074 cars (Financial Magazine, 2016). France and Germany remained the first two countries where Dacia cars where mostly bought, the third place being disputed over the years between Spain, Italy and Algeria.

The structure of Romania's exports also changed in the last decade. The tendency today has shifted from exporting goods that had lower added value to goods that now incorporate more technology. For instance, in the early 2000, 31.8% of exports was represented by garment and

footwear products while the share of auto-moto products was only 18.9 %. Today, 45.8% of exports are done by the auto industry and only 10% by the textile sector. Comparing their values, the textile sector's value increased from 3.8 billion Euro in 2000 to 5.1 billions in 2013. However, the value of the auto industry exports increased from 2.1 billion Euro to over 21 billions in the same period, which is a 10 times increase (Ziarul Financiar, 2013). In a study made by Georgescu (2013) can be seen that foreign companies' share in total exports has increased from 62.6 % in 2008 to 69.8% in 2011. Along the same time line, their share in Romania's imports increased only from 57.2% to 60.8%. FDI enterprises contribution to the trade deficit decreased from almost 50% in 2008 to 19.8% in 2011. The main trigger put up front for the trade surplus is the manufacturing industry and its automotive branch lead by Dacia's exports (Georgescu, 2013). Going back in 1989, the total value of Romania's exports was $5.9 billion. In contrast, only Dacia's exports in 2013 exceeded $3.6 billion. Juxtaposing the imports evolution over the same decade, in the auto industry the imports share increased from 28.9 to 35.3 % and their value increased 5 fold to 18.7 billion Euro in 2013 (auto-bild.ro, 2014). Thus, the value of imports is smaller than the value of exports in the auto industry.

In 2015, almost half of Romania's exports were represented by the auto industry, Dacia and Ford gathering a total value of 18.7 billion Euro revenue from exports. Overall the auto industry dominates the top 10 biggest exporters of Romania, Dacia leading the rank. The list is completed by Honeywell (3), Ford (4), Continental Automotive Systems (6), Continental Automotive Products (9) and Daimler AG (10). Also known as 'Romanian investment magnet', the car parts manufacturing sector still has a lot of development potential. If in 2008 the export of car parts accounted for 4.2 billion Euro, in 2014 it reached up to 8.7 billion Euro. The same year, the most exported good of the country was the CCD chips set for spark plugs produced at Dacia. Today, 80% of auto parts needed for a car are produced in Romania and most of the production goes to export (ziare.com, 2016).

This year have opened several factories of auto parts in the country, the most notable name being CIKAUTXO - a company with Spanish capital, the US company Inteva Products, Japan's Sumitomo Electric Wiring System, and the German group Draexlmaier which has opened a new production facility in Brasov (ziare.com, 2016).

What is more, in Romania are produced auto components for luxury cars. Porsche 918 Spyder, whose price reaches $1 million, is composed of multifunctional steering wheel switches, switches block lights, climate control systems and control elements of the center console made in

a factory in Brasov. The same company has supplied parts for the climate control panel to the new Audi TT. Even the luxurious Rolls Royce have Romanian made parts. A company from Timis county processes the components related to the appearance of the car such as radio cover or trim trunk mask (ziare.com, 2016). In addition, Continental Envelopes Timisoara announced in July 2015 that it would start delivering premium tires for the Jaguar automotive company. 15,000 Ultra High Performance units would be delivered to the XE Jaguar produced in the UK (thebrc.co.uk, 2016).

Elena Iorga, Director of Economic Studies Department at National Bank of Romania considers that the importance of lohn production has declined substantially in recent years, not only in relative but also in absolute terms. The declining dependence of exports to imports in the auto industry occurred due to the massive foreign direct investments done in Romania in the past years (Financial Magazine, 2013). Moreover, the same analyst states that foreign direct investors were the main contributors to shorten Romania's economic and technological gap compared to Western European countries.

Yet, Romania stand behind its neighboring countries when it comes to export/capita and it's at the back of the rank among all the other European countries. If in Romania the export per capita is 2.700 Euro / year, in Czech Republic and Hungary is five times, respectively four times more. Needless to say that Germany is the European leader in terms of exports, with 15.000 Euro/capita goods and services exported last year (Financial Magazine, 2016). Thereafter, in Romania is a lot of growing potential, especially from local companies because the top now is dominated by foreign owned corporations.

5.4.1.5 Did the acquisition of Dacia by Renault Group promote economic growth in Romania?

Romania, Czech Republic and Slovakia are considered by the French company COFACE the most successful car manufacturers in the region, as their production tripled or even increased fourfold in the last decade. CEE countries account nowadays for 2% of the total EU car production, with Dacia and Skoda being the strongest local brands. Today, Romania has over 600 automotive manufacturers which employ 203,600 people. The auto industry contributes to Romania's GDP with 12%, and in 2014 22.5% of national exports represented motor vehicles and 16.7% car parts (thebrc.co.uk, 2016).

Dacia and Renault Romania contributed lately to almost 3% to Romania's GDP and 8% of the country's total exports (theguardian.com, 2014; stirileprotv.ro, 2015). An important point on Romania's map is Constanta's Harbor through which 40% of Dacia's exports leave to 12 worldwide countries. Stefan Gaibu - logistic manager at Dacia explains that the harbor has a strategic importance for new car deliveries. Circa 3 trains loaded with almost 300 cars travel every day from Dacia plant to Constanta Harbor that further go to markets from the Middle East, Africa or Southeast Asia (Financial Magazine, 2015). The Harbor is an important barometer of the Romanian economy and the evolution of the merchandise exported through Constanta Harbor shows indeed the struggles that Romania faced after 1990 - Figure X below shows the trend of the harbor's traffic (promotor.2013, Ziarul Financiar, 2015).

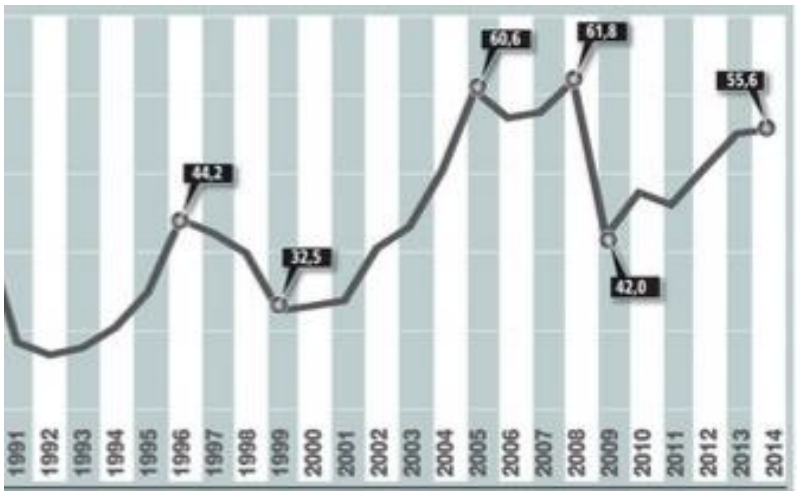

Figure 11: Evolution of merchandise traffic through Constanta Harbor from 1990 to 2014. Values expressed in million tons/year.

Source: gandul.info

Still, Valeriu Ionescu - the port administrator, says that the port hasn't reach its' full potential and it could deal in the future with 100 million tons of merchandise per year. The Figure above shows how the Romanian economy increased and decreased during the last two decades. The boom phase from 2007-2008 meant a top 61.8 million tons of merchandise exported from Romania followed by a sharp decrease in 2009 when the economic crisis hit the market. Since then, the economy is still recovering, displaying an increasing trend that is expected to continue at least until 2020 (Financial Magazine, 2015). Despite the crisis, Dacia's business flourished and today it transformed Romania and implicitly Constanta harbor into key players of the European automotive industry (CNN, 2013). As Dorin Iacob - spokesperson for Romcargo

Maritim company - puts it, Dacia was a beautiful surprise during the crisis and 'has made up our business actually' (CNN reportage, 2013).

If it is to turn our attention on how did the privatization of Dacia affected the local community, the first effect can be seen upon the small city of Mioveni. Out of 34.000 people that live in Mioveni, around 6000 work at Dacia plant (roughly 18% of the population). Renamed 'La petite ville de Dacia' in touristic brochures, Ioan Georgescu - the mayor of Mioveni admits that the city evolved together with Dacia. If in 1999 people were skeptical towards private firms in the area, today things have changed radically. The tourism increased significantly in the area and the city seems like 'exploded' (auto-bild.ro, 2014). Moreover, due to Renault's CSR policy, the mayor further stresses that Arges people are much more careful today at environmental related issues and engage in joint actions together with the Group for environment protection 'Dacia is today the driving force for stability and development in the city of Mioveni' (Ion Georgescu interview in auto-bild.ro, 2014).

In addition, the employees at Dacia have their own opinions when asked how did the factory changed after it was acquired by Renault. Elena Constantin - mechanical operator states 'With the old equipment people didn't have much efficiency and the quality was low. Today, a top priority is cars' quality assurance. We are paid good wages, working conditions have changed and the management is professional' (Elena Constantin interview in auto-bild.ro, 2014). In seven years the wages for blue-collar workers increased three times and people are paid twice as much as the average in the country which is around 432 Euro (theguardian.com, 2014). Gheorghe Nita - head of TCe 90 engines department adds that right after Renault came to Mioveni, quality and environmental protection have been imposed immediately. 'In 1999, Renault has taken not only a factory, which transformed it radically, but established a solid construction & community of what today we call Renault Romania: a complete chain of activities specific to the automotive industry, from market research and product design, engineering, testing, manufacturing to sales and after-sales' says Nicolas Maure, Dacia and Renault Romania general manager in 2014 (interview in auto-bild.ro, 2014).

Today, Dacia owns the most dense and developed commercial network in the country. For 2016 Dacia Logan and Sandero models will be updated and some others equipped with Easy R robotic gearbox. In terms of European sales, Dacia representatives expect a similar result as in 2015,

while for the Romanian market they expect to sell 20% of the production locally before 2020 (today they sell less than 10% on the Romanian market) (capital.ro, 2016).

More than just a car producer, Dacia is a national brand. Ion Manu, 45, a maintenance worker at the Mioveni plant since 1987 admits that Romanian people were always fond of Dacia and now, when the brand is successful overseas as well, people are really, really proud facing the rebirth of a national symbol (theguardian.com, 2014).

Chapter 6. What can be done to improve the attractiveness of Romania for future foreign direct investors?

The fact that Dacia is a successful privatization story proves that good things can happen in automotive cross-border mergers and acquisitions and win-win situations are possible. On one hand Romania witnessed the rebirth of a national brand with positive impacts over the local labor force, increased exports and GDP and the development of the national auto industry. On the other hand, Renault entered the low-cost segment of the market and nowadays 45%-50% of Renault's business is driven by their entry-level program. Dacia Duster was in 2014 the best-selling car from Renault's portfolio worldwide and the facility in Mioveni is the biggest vehicle plant in terms of output for Renault (theguardian.com, 2014).

However, the growth that Dacia experienced since its' acquisition won't continue forever. Europe is facing an over capacity of production and there is always the risk of new entrants in the low-cost market. The goal for the future is to increase the automatization at Dacia plant from 5% to 20% in order to remain competitive, although that may result in job loses. In addition, the French group opened a new production facility in Tanger, Morocco where they assembly the same Dacia models as in Romania. However, when asked if there is any risk that Renault would move all the production to the African country, Nicolas Maure - the CEO of the Group in 2013 stated that Romania has a competitive advantage compared to the rest of the countries where Renault does business because in Romania Renault gathers all the automotive related activities - both upstream and downstream. Thus it would be too costly to shut down and move all the production to other sites (ziare.com, 2013).

Still, there are some things that need to be improved which concern the decisions of Romania's Government. At first, there are some recent fiscal incentives already in place which are favorable to the business environment:

- The contribution to social security insurance diminished by 5% for the employer
- Grants for one year for the companies that hire young graduates
- VAT decreased from 24% to 20% and it's provisioned to decrease to 19% starting 1st January 2017
- Tax on dividends decreased from 16% to 5%

- Extending the sphere of the exemption tax on reinvested profit for the acquisition of computers, peripherals, software
- Tax on constructions diminished to 1% (recall on 01.01.2017)

Moreover, it is desired to eliminate the fuel's over-excise in 01.01.2017. Yet, a chapter where Romania is far behind other European countries is at highways construction. In July 2015, in Romania were 695.4 functional km of highways. Compared with Spain that leads the top with 16.204 km in 2014 or even Hungary with 1.361 km, it's clear that Romania needs to improve fast. What is worse, the price paid for 1 km of highway is 6.9 million Euro, which is three times more than in Bulgaria (on the same landform) and much more than in Germany, Spain, Greece or Poland (hotnews.ro, 2013). If one wants to cross the country from Constanta (South-East) to the first highway to Western Europe at Mako (Hungary), are needed almost 900 kilometers. The road takes up at least 13 to 14 hours. This time is equivalent to that required for crossing the whole Europe, exclusively on the highway, from Mako to Rotterdam. These days, there isn't yet a motorway that connects the East with West of Romania, nor North to South (hotnews.ro, 2013).

For about 10 years now, all the Transportation Ministries that were in charge, promised to build the highway from Pitesti to Sibiu which would connect the South with the West of Romania and which would be vital for Dacia. The section between Pitesti and Sibiu is the only one that misses out of A1 highway, which connects the capital city Bucharest with Hungary and it's part of the IV Pan-European Corridor (automarket.ro, 2015). On 7 March 2016, the biggest employee union in the country 'Dacia Automobile Union' (gathers around 16.500 people both from Dacia company and other stakeholders) organized another large rally to protest against the political class and demand the construction of Pitesti-Sibiu highway. Marin Anghel, the union leader, explains why this project is so important for Dacia and for Romania implicitly: 'This highway is needed for the entire Southern area of the country and it is particularly affecting the automotive industry in the region, namely Dacia, due to high transportation costs. Another aspect is the repeated delay in supplying car parts for Dacia, due to accidents and jams that occur on the Olt Valley." (Marin Anghel interview in ziarulancheta.ro, 2016). The Romanian-French automaker declared that if the highway would be built, the transportation costs for each car that goes to export would be reduced with 30 Euro. The management of Dacia also put pressure on the Government to build the most expected national infrastructure program as it is often called, but

the officials from the National Highways and Roads Company (CNADNR) say that the motorway won't be ready earlier than the end of 2021 (gandul.info, 2016).

Dacia was joined by Ford company in their pursue to demand the commencement of the infrastructure project and they threaten the politicians to leaving the country if the highway isn't done until 2020 (stiripesurse.ro, 2015).

Moreover, about 85% of the building costs would be provided by EU as grant funds, but no Government was able to attract the funds. And so again, problems of corruption and bureaucracy stand in the way. That is because with EU funds one has to come with a clear and transparent project to show exactly how the money will be used. Thus, the new Government that will be elected in the fall of 2016 has to seriously think on long-term how political decisions might affect the economic system of Romania. The Association of Car Manufacturers in Romania advises that the country needs a more auto-friendly legislative framework, more investments in transport infrastructure and a more protective domestic market that promotes local-made products (ACAROM 2015).

In addition, the protesters ask the Government to improve the national programs that stimulate the acquisition of new cars. Beyond the older program-Rabla, in 2015 another national program called 'The First Car' (Prima Masina) was launched. The First Car is dedicated to persons between 18-35 years old that have never bought a new car before. The initiative stipulated that a person can acquire a new car of maximum 50.000 lei+VAT (around 13.500 Euro + VAT) which corresponds to at least EURO 5 pollution norms, with a 5 years credit maturity out of which the new owner has to give in advance 5% of the car's price. What is more, the state guarantees 50% of the credit. However, during the 5 years credit time the owner is required to pay the third person liability insurance (RCA in Romania) and also CASCO insurance. The problem with these insurance policies is that their price can vary a lot. For RCA in the best case scenario it costs under 100 Euro / year, but recent increases have resulted in annual cost of 500 euro for young drivers. In regards to CASCO it is at best below 250 Euro / year, but for big engine cars can exceed 400 Euro/year. Neither the banks were very interested in joining the crediting program, thus the general public asks for better conditions and improvement of the national program (hotnews.ro, 2015).

If it is to look at how Romania is assessed by international reports, the World Economic Forum's 2015-16 Global Competitiveness Report places Romania on the 53rd place out of 140 countries providing insight into the drivers of their productivity and prosperity, with 6 places up compared to the previous year and 23 places up compared with two years ago. The report places Romania in the 'Emerging and Developing Europe' group. Only two countries in this group are more competitive than Romania, Poland (on 41) and Turkey (on 51). On the same place with Romania comes Bulgaria, while Hungary, Slovakia and Greece are behind Romania, the report states (romania-insider.com, 2015). In order to assess the competitiveness of a country, 12 pillars are used. [11] Romania does good at macroeconomic environment (place 34th), but lags behind on 'Institutions' and 'Infrastructure' (86th on both pillars), and 'Health and Primary Education' (83rd). The other four pillars are 'Higher Education and Training' (59th), 'Goods Market Efficiency' (73rd), 'Labor Market Efficiency' (78th), and 'Financial Market Development' (55th). Overall the country improved in terms of efficiency but still has to work at innovation.

The most important obstacles for businessmen remain lack of financing, high taxes, poor infrastructure and corruption, the report informs (romania-insider, 2015).

An in-depth research of Romania's political, economic and operational risk environment made by BMI Research - A Fitch Group Company place the relative low wages and the educated work force of the country among the top attractions for foreign direct investors. In addition, the EU membership since 2007 helped the trade and capital market integration and put Romania on the convergence path along with other members of the transition countries bloc. The flexible national currency (Romanian Leu) and the limited private sector indebtedness provides some space for Romania's policymakers to stimulate growth (bmiresearch.com/Romania, 2014). The predictions for the near future are that in 2016 Romania is going to outperform the other CEE economies in terms of growth and will be the second fastest growing economy in the EU after Ireland. This growth will be mainly driven by household consumption that already benefit from wage increases, VAT cuts and improved labor market conditions.

[11] The 12 pillars are: Institutions, Infrastructure,. Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, Business sophistication, Innovation

The construction industry appears to be one of the strongest in the CEE region and the infrastructure deficit with obsolete transportation and utilities network creates the opportunity and the need for extensive investment and modernization in the sector. The funding will come mainly from EU which will support projects in rail and road improvements under the Transport Master Plan. The trade forecasts for 2016 predict a growth of 4.6% and 4.5% in 2017. Mainly driven by private consumption, imports will also grow thus it is expected that air and road freight will grow faster than rail freight. However, the rail freight will benefit from increased export especially in agriculture and heavy machinery (bmiresearch.com/Romania, 2014). The manufacturing industry will keep the competitive trend it already has and also will continue to be one of the key industries of Romania due to low wages, flexible legislation and large working-age labor force. Hence the labor market puts Romania on the 17th place out of 31 Emerging European states.

The potential risks that may affect the attractiveness of the country in the eyes of foreign investors are: the 'brain drain' phenomenon of skilled labor force that choose to leave Romania in favor of more developed economies, low enforcement of law, political instability and corruption that will deepen the trust gap in politicians. However, Romania is less exposed to the current migration crisis and the high level of openness to foreign investments can keep the country attractive. Also the credit ratings offered by Agencies like Standards and Poor, Moody's or Fitch are generally positive, with a stable outlook for the past five years (tradingeconomics.com, 2016). [12]

[12] Moody's rating: Baa3, outlook: positive (Dec,2015); S&P: BBB- rating, outlook: stable (May, 2014); S&P: BB+ rating, outlook: stable (March, 2010)

Chapter 7. Implications

The purpose of this paper was to assess the impact of Foreign Direct Investments over Romania's macroeconomic environment, having as unit of analysis the acquisition case of the former state-owned auto company Dacia by the French group Renault. The analysis was conducted such as to follow the directions proposed in the literature and see what are the upsides and downsides of FDIs in general, then assess if the above mentioned acquisition produced any spillover effects on Romania's economic system. Finally, the last research objective was to highlight the future directions where the Romanian policy could be improved in order to benefit current investors and attract new ones.

At first, FDI related literature claimed that cross-border investments (may them be mergers & acquisitions, greenfield, joint ventures, licensing agreements and so on) can have both positive and negative effects on host countries, with the balance hanging though in favor of more positive than negative impacts (Protsenko, 2003; Zhang et.al. 2010; Blomström & Kokko, 2003; Lipsey, 2004). For developing countries especially, foreign investments are seen rather as an opportunity to develop and join the global market place through the links established with the multinational corporations (OECD, 2013).

In the case of transition countries from Central and Eastern Europe as Romania, the amount of foreign investments increased mainly after the fall of the communist regime, when the market liberalized and the country was in need of restructuring it's political, social and economic system. Thus, most of the investments where done in the form of mergers and acquisitions of former state-owned companies by private entities. As discussed in Chapter 4, these privatizations did not always brought a revival in the acquired company and displayed more negative than positive outcomes. These negative effects can range from monopolistic advantages achieved by the new investor, to increased rate of unemployment due to efficiency achieving purposes, negative impact on the state budget because of the deductions provided by the state to increased volatility of the economic system on long term due to the higher dependency on foreign decisions and events. However, the negative effects appear mostly in the short term and the long-term advantages of direct investments counter balance the downsides of them, which is why FDIs are seen as a necessary tool for host countries' growth and generally sought after. Among the benefits of FDIs, one can mention: regional development, increased diversity, technological update, new jobs creation, exports' increase and enhanced specialization of the labor force.

Yet, if Romania wants to remain attractive for foreign investors, the state has to come with a sustainable Master Plan for development and investments. On top of that, bureaucracy and corruption issues should be dealt with as soon as possible. For entrepreneurs and business people, this study offers an overview of the most promising activities that can be undertaken and have further growth potential. R&D and Innovation practices will account for more and more share since the value added of these activities is also higher. Thus, it could mean higher returns on investment for those deciding to engage in automotive related activities. For young people and students, this paper may come in handy when deciding which careers and activities are the most sought after by domestic and foreign investors in Romania. The self-driving cars of the future will require talented and dedicated IT staff that can provide the necessary software systems and applications for the next autonomous and green cars which are considered to be the next predicted phase of the auto industry development (Aldea, 2011).

Conclusion

All in all, one can see that Romania's overall environment has improved in the last two decades and the EU membership has brought additional benefits for the country translated into increased confidence in the eyes of foreign investors. In regards to the acquisition of Dacia by Renault Group, it was the most successful privatization done in Romania so far. The analysis shows how different was the brand before and after the acquisition by the French auto-maker. The technological update, the investments in the IT infrastructure and the creation of new Dacia models that are more performant and qualitative, put Dacia and Romania on the global automotive market map. With an annually contribution with 3% on Romania's GDP and 8% to the country's exports, Dacia is today Romania's biggest company and the biggest exporter. Over 200.000 direct and indirect jobs have been created due to the development of the auto industry and now this sector is the one that drives Romania's economy upwards. Moreover, due to agglomeration effects, more investors (both foreign and domestic) were attracted by the Romanian automotive industry, the majority of them being suppliers also for Dacia.

The Limitations of the thesis come in form of limited amount of time for the research at hand. Due to time constraints, only secondary data were gathered which may be biased because they were not collected for this paper's purpose. A set of primary data from Dacia, local stakeholders and Government officials would have added a qualitative stance to the project. On top of that, additional insights in other sectors beyond the auto industry would have given a more accurate overview of the influences Dacia's acquisition had. Thus, a holistic approach could be done for future research to better understand how Renault's investment affected Romania.

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Appendix

Table 2: Evolution of FDI in Romania from 2003 to 2014

YEAR	FDI / Million Euros
2003	9,662
2004	15,040
2005	21,885
2006	34,512
2007	42,770
2008	48,798
2009	49,984
2010	52,585
2011	55,139
2012	59,126
2013	59,958
2014	60,198

Source: Statistics Division of National Bank of Romania (NBR)

Table 5: Evolution of FDI and GDP in Romania between 2003-2014 (currency: million Euro)

Year	GDP	FDI
2003	52,6	9,662
2004	60,8	15,040
2005	79,5	21,885

2006	97,7	34,512
2007	123,7	42,770
2008	139,7	48,798
2009	118,2	49,984
2010	124,4	52,585
2011	131,3	55,139
2012	132	59,126
2013	140,6	59,958
2014	149,5	60,198

Source: NBR and Ziarul Financiar

Number	Company	Rank dynamics 2015 vs. 2014	Sector
1	Dacia Automobile	→	auto
2	Rompetrol Rafineries	→	petrol
3	Honeywell Technologies	↑	hard industry
4	Ford Romania	↓	auto
5	Flextronics Manufacturing Europe	↑	hard industry
6	Continental Automotive Systems	↑	auto
7	Philip Morris Italy	↑	tobacco
8	Autoliv Romania	↑	auto
9	Continental Automotive Products	↓	auto
10	Daimler AG	↑	auto

Figure 4: Top ten biggest exporting firms of Romania in 2015

Source: Capital.ro

Table 8: Top ten export destinations of Dacia from 2011 to 2014

Top 10 export destinations 2011		
	Country	**Units**
1	France	94 278
2	Germany	43 452
3	Italy	26 838
4	Turkey	21 339
5	Algeria	19 242
6	Spain	15 641
7	Belgium	14 700
8	Poland	7 382
9	Switzerland	6 051
10	Austria	5 697

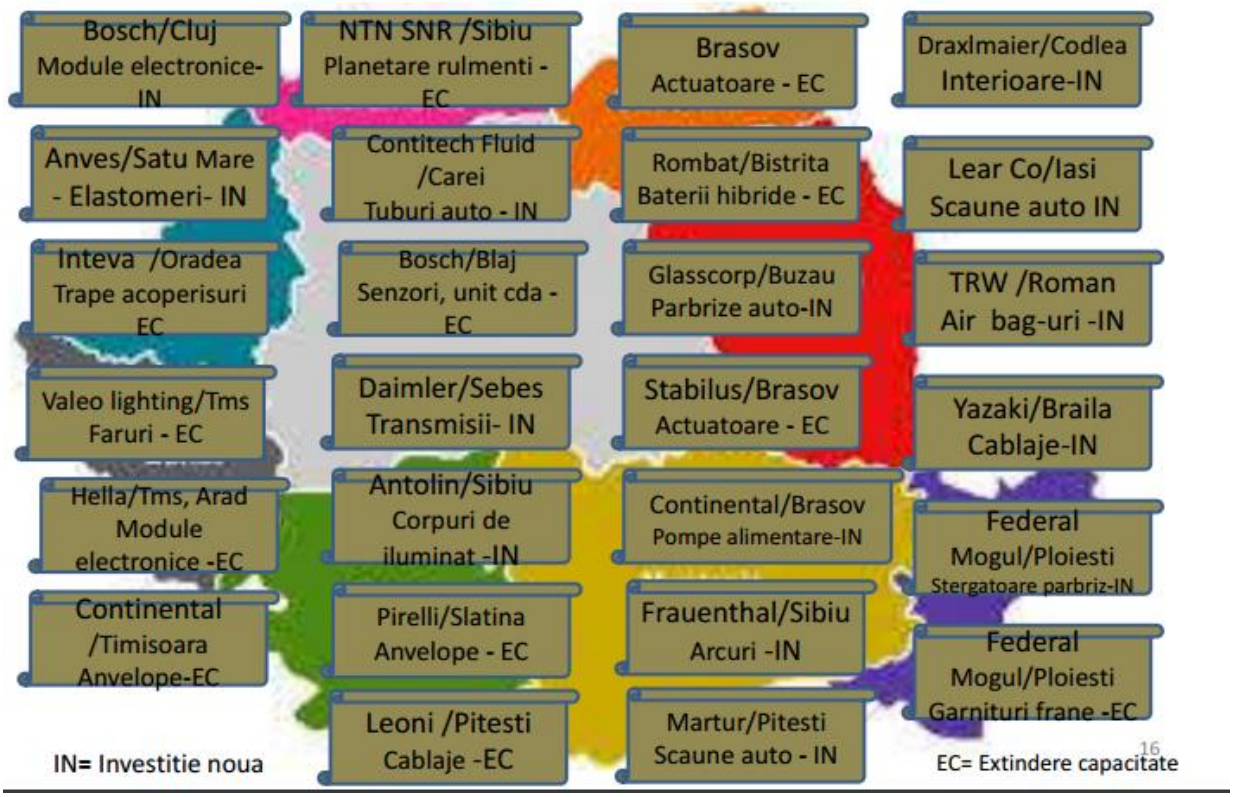
Top 10 export destinations 2012		
	Ţară	**Unităţi**
1	France	84 522
2	Germany	46 590
3	Algeria	41 710
4	Turkey	28 964
5	Italy	26 832
6	Spain	17 847
7	Belgium	13 000
8	Poland	10 282
9	Austria	6 557
10	Switzerland	5 505

Top 10 export destinations 2013		
	Country	**Units**
1	France	93 803
2	Germany	47 162
3	Algeria	37 290
4	Turkey	36 395
5	Spain	32 288
6	Morocco	30 388
7	Italy	28 098
8	Belgium	17 200
9	Great Britain	17 146
10	Poland	12 208

Top 10 export destinations 2014		
	Country	**Units**
1	France	105 893
2	Germany	50 704
3	Spain	45 986
4	Italy	39 964
5	Algeria	39 741
6	Turkey	34 469
7	Morocco	33 734
8	Great Britain	23 862
9	Belgium	18 000
10	Poland	14 689

Source: daciagroup.com

Table 12: Dacia's local and foreign owned company suppliers



Source: ACAROM (2015); IN= new investment, EC= capacity extension

Evolution of Dacia (basic) models from 1968 to 2015

Dacia 1100

Dacia 1300

Dacia Nova

Dacia SuperNova

Dacia Solenza

Dacia Logan

Dacia Sandero

Dacia Duster