

ICWA LETTERS

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Business Romanian Style

BUDAPEST, Hungary

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By Christopher P. Ball

Liviu Picior is a businessman's businessman. He works hard, is creative and has that unique sixth sense, found in all good entrepreneurs, to know which way the wind is going to blow next. All of this, plus a little luck, makes for a good businessman anywhere in the world, even in Romania.

In the mid-eighties Mr. Picior, a native of Timisoara, one of Romania's larger cities near the Hungarian border, began working at Electro Motor, a state-owned electrical company. By the late '80s, he had moved up to the position of chief of exports. In 1990 he became chief of marketing as well. He stayed in both these positions working full-time until 1995.

OPPORTUNITY KNOCKS

In March 1990 the post-Ceausescu government made it legal to establish private businesses. Seeing this as a golden opportunity, Mr. Picior and some of his legal acquaintances formed their first business, to consult with those wishing to start new enterprises. Most of those who came to Mr. Picior and his associates were interested in importing and exporting since they knew the special requirements such a company had to meet in a still-very-closed Romanian economy.

"The system for establishing one's own business at that time was extremely complicated, which meant that few people could establish a business without outside consulting," Picior told me. He explained further, and I paraphrase: In 1990 the minimum investment requirement was 300,000 Lei (approximately one year's income for a small business). Since there was no functioning loan system or capital market, this money had to be raised either from savings or by pooling together the resources of several persons who would then become partners.¹ Once the starting capital was raised, a founding document had to be drafted including, in detail, all activities the company intended to perform. It also had to include the company's exact location, the names of all partners, reference information on them (ID numbers, etc.), and all current assets.

The applicant then went to the state lawyer (in one office/building) for approval, then to the state consultant (in another office/building) for approval, then to the notary (yet another office/building) for notification, and finally (in yet another office/building) to the Judicial Department of the local Chamber of Commerce. Once this was all completed, provided there were no errors in the paperwork (which would mean starting the process all over again), the applicant was ready to go to the proper local court for judgment on his/her application. The judgment was published a few weeks later in the official state journal, *Monitorul Oficial*. Once the judgment was published the applicant was finally ready to

¹ Note that in spite of this major barrier to entry (showing the government was not all that "pro-market"); from March to December 1990, 140,000 requests for permits to open private business were submitted and 80,000 were approved by the end of the year. Source: *Romania: An Economic Assessment*, OECD, 1993, p. 39.

register at city hall and go through a series of inspections for sanitation, worker safety, fire safety, and so on.

Assuming there were no problems, that all papers were in the order that all necessary bureaucrats had been bribed,² that all inspections were approved (also meaning all inspectors were properly bribed), then the process took a minimum of two months to complete. Usually, however, the process took about three months, given one or two minor complications. Finally, the applicant was ready to do business.³

Liviu Picior purchased a personal computer and registered over 300 companies in 1990. "I think I was the first person in Romania to use a computer for this. It was really easy, I just entered the basic forms in my word processor and changed the information for each company," he said with a broad smile of self-approval. "It was very profitable."

Unfortunately, the economy slowed down greatly throughout 1991, and by 1992 small-business start-ups had dramatically tapered off. Mr. Picior was, however, not discouraged.

"OPPORTUNITY": TAKE TWO

"The economy was hitting rock bottom [in 1992] and I began to look around for other businesses I could start," said Mr. Picior. "It occurred to me that after all the registrations I had done, I had a valuable data base of over 300 companies in the import/export business." It was then that Mr. Picior established his second business: consulting with import/export companies. Again he explained why the Romanian economic system at that time allowed a consultant like him to profit. Again I paraphrase:

After 1989, managers of State-Owned Enterprises (SOEs) started small private companies that illegally siphoned off resources from the original SOE, and then sold them. (See Figures 1 and 2.) They then traded officially with the SOE at bargain rates, lending some

legitimacy to their activities — at least on paper. To cover up their tracks to some extent, these companies were often founded under the name of a founder's spouse, relative or friend. In this way the start-ups became part of the gray market, not fully illegal (black), but still far from being entirely legal (white). These new, semi-legal firms, having insider information on the flows of Romanian goods and services in their respective industries, would then begin trading goods among themselves. The emerging trade patterns most likely followed the general course they would have, had the SOEs been free to legally trade amongst themselves prior to 1989. In a sense, one could easily argue that the activities of these firms, although illegal, probably made the Romanian economic system of the early 1990s more efficient than it would otherwise have been without them. This might also be one reason⁴ why their illegal activities were generally tolerated.

These companies usually formed other companies that also engaged in business, sometimes legitimately, sometimes not. Because many of the managers had contact with the old import/export organizations under communism,⁵ they knew how the system worked and who to contact to trade abroad, given a certain regional or market interest. Beyond these semi-legal companies lay myriad legitimate companies that traded among SOEs and newly-created private companies trading domestically, creating a complicated web of interaction, trade and cross-ownership/management among businesses in post-Communist Romania.⁶ This meant that information about who was engaged in what kind of business with whom was very hard to come by — and therefore valuable. (Figure 3 represents a simplification of this structure as it formed around SOEs and industries. The connecting lines in the figure represent possible trade and ownership relationships. The consultant firm in Figure Three sees all the activities in their reality — as opposed to the "falsity" that the firms claim officially on paper — and may help firms inside the system connect with one another or help outside firms find the right insiders.)⁷

Here is where Liviu Picior's experience as Chief of

² Note that in addition to the minimum capital requirement of 300,000 Lei, this process required the applicant to pay outside consultants and bribe officials, adding greatly to the cost of setting up a business although officially the whole process was a free service provided by the government to help *facilitate* new business start-ups.

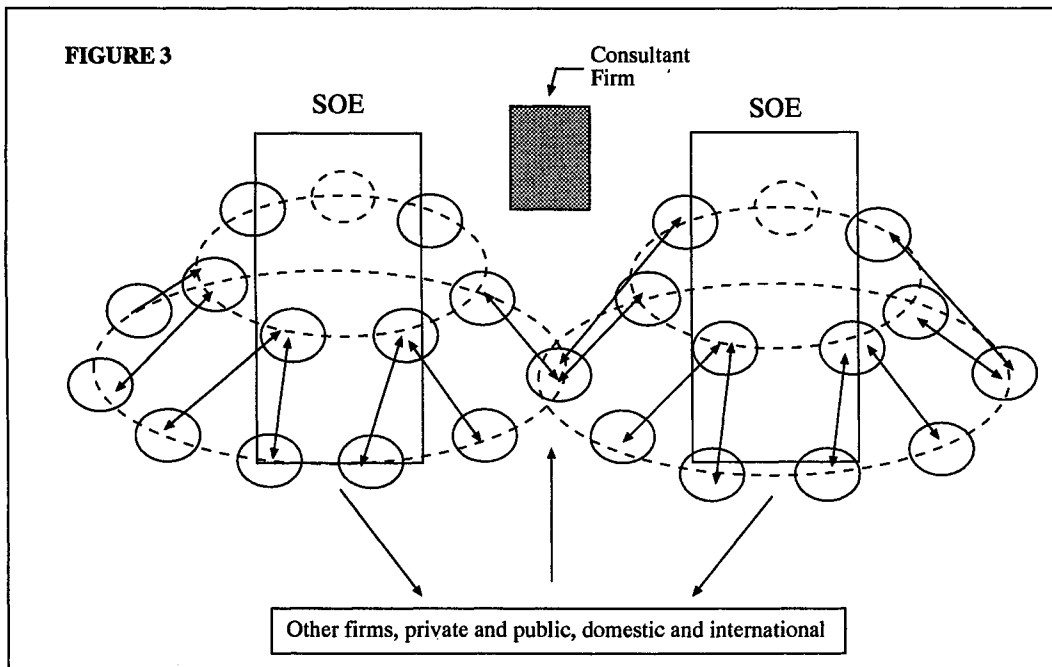
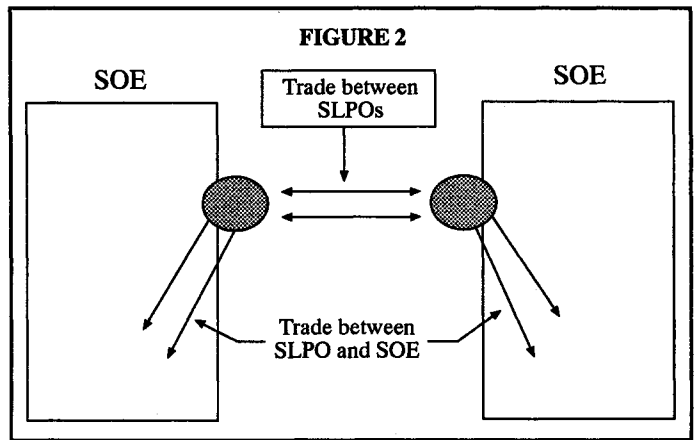
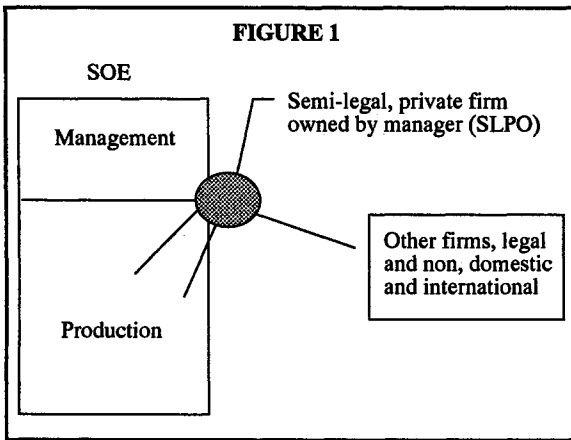
³ This process remained in place until June 27, 1997 when it was finally changed by government ordinance. Now all registration is done in one building, followed by a judge's order for legalization. It takes about one month and the starting capital requirement is 1,000,000 Lei (U.S.\$125, or two to three months' wages).

⁴ Another explanation would certainly be that these firms had inside contacts with the government and the money to effectively bribe the proper government officials.

⁵ Under Romanian communism, all export and import was done through separate governmental bodies run by the Securitate, the Romanian secret police (like the Russian KGB). This meant that no business in Romania had direct contact with buyers and sellers in other countries. Thus, those who ran these organizations were the only ones well situated to import and export after 1989. They often formed private companies, took their contacts with them and began trading.

⁶ For an excellent study of the same phenomenon in Hungary see: *Recombinant Property in East European Capitalism*, David Stark, *American Journal of Sociology*, Vol. 101, Number 4 (January 1996), pp. 993-1027.

⁷ This activity was not in any way unique to the import-export industry, but could be commonly found in all Romanian industrial sectors. Reference above is made to the import-exporters only because this was the market where Mr. Picior had the most experience.



Exports for Electro Motor and his database of new companies, most of them importers and exporters, came in very handy. He and his legal partners began consulting with businesses that wanted to trade internationally. While the complexity of the situation helped guarantee profits for those with the right information, Mr. Picior was quick to note that the other factor working in his favor was the constantly changing legal environment in Romania then (and today). Without a legal expert, most small businesspersons would simply be lost in the ebbs and flows of ever-changing Romanian business law.

A LESSON FROM THE FRENCH

The third business Liviu started (in 1991) was partially a spin-off of his work as Chief of Marketing at

Electro Motor. At the state company he had learned the basics of marketing in Romania. Two unexpected events helped him greatly, however. The first was when a large French marketing and research company opened its office in Romania. It focused its activities on diagnostic and feasibility studies and hired local experts to deal with local legal and accounting issues. Liviu and his associates again jumped in (with yet another new firm⁸) and contracted with the French to handle the local side of the business. This was made partially possible because of the second event that helped him. His lifelong friend, Ioan Fota, and President of the Marketing Association of Romania, was appointed Minister of Trade in 1990. This contact provided him with insider information (not necessarily illegal) and unique access to contracts and business passing through the government, still constituting the bulk of

⁸ Romanian tax and accounting law seems to strongly encourage firms to specialize in only one or two main activities, thus leading entrepreneurs to form several different firms to perform different and distinct tasks that might be more easily done under one roof. It also makes it easier and more profitable to own one company legally through another company rather than as a private individual. These two general legal problems have been referred to by every single Romanian business person with whom I have spoken.

business in Romania at that time.

From the French, Liviu Picior learned western-style marketing (differing greatly, as one can imagine, from communist-style Romanian marketing) and how to conduct feasibility studies of potential markets. The French were pushed out of Romania in 1992 under the weight of growing international competition, leaving Mr. Picior and his team as one of the few groups of local experts in western-style marketing.

With the French gone, and given his newly-acquired knowledge, there was only one thing left for him to do: start another business. And he did. So, in 1992, he started a business called BANAT Economic Life (UEB), which focused specifically on economic development in the Banat, the county where Timisoara is located. UEB published an economic and trade magazine, worked to establish and maintain professionalism in the field of marketing in Romania and to train local people in western-style marketing techniques.

BACK TO BASICS

"Unfortunately, in 1994 [President Ion] Iliescu was reelected. He began blocking reform and pushing the economy down again," lamented Mr. Picior, who also happens to be an advisor to the Liberal Party of Romania

and vice-president of the Liberal Club of Timisoara, which advocates a minimal state, freedom of speech and expression, free markets and the rule of law. "Also, the newly-elected government changed the Minister of Trade [Liviu's friend] because he was a Liberal. I lost many of my clients."

At this point, Mr. Picior took his lei, which were quickly being eroded in Romania's high-inflation environment, and bought several service-oriented businesses. He bought some restaurants, small import/export businesses, and a small market place, where he rented space to shop owners who wanted to set up stands and kiosks.

"This was probably one of the best things I ever did," said Liviu. "You see, because I ran these companies myself, with partners of course, I learned every detail about doing business. I learned all the basics: small business accounting, legal management and marketing. I learned what kind of troubles businesses have and how they have to behave in Romania to survive. All this is very valuable information for a consultant like me. Now I consult with small firms on every aspect of their business, from nation-wide marketing to accounting and relations with other companies."

In 1995 he was still working at Electro Motor when he decided it was time for him finally to choose between





Liberty Square, Timisoara, (above), where Mr. Picior's office is located; (below) entrance to Chamber of Commerce with which he shares office space.



remaining in the secure state sector and switching to his new private businesses full-time. He chose to quit his Electro Motor job and live entirely on the income from his entrepreneurial activities. He has been there ever since.

Today he owns and manages three-plus companies, as well as his smaller shops, restaurants and the market place. Most of his activities are run, however, through his

main company, *Asociata Română de Marketing, Timisoara*. Through this company, which he runs jointly with four office workers and one German partner, he has 30 percent or more ownership in the other three companies and fully owns his smaller enterprises. "Legally, it is easiest to buy a company or controlling shares in it through a business rather than as an individual," he noted. "It limits my liabilities as well." □

Institute of Current World Affairs Fellows and their Activities

Adam Smith Albion. A former research associate at the Institute for EastWest Studies at Prague in the Czech Republic, Adam is studying and writing about the republics of Central Asia, and their importance as actors within and without the former Soviet bloc. A Harvard graduate (1988: History), Adam has completed the first year of a two-year M. Litt. Degree in Russian/East European history and languages at Oxford University. [EUROPE/RUSSIA]

Christopher P. Ball. An economist, Chris Ball holds a B.A. from the University of Alabama in Huntsville and attended the 1992 International Summer School at the London School of Economics. He studied Hungarian for two years in Budapest while serving as Project Director for the Hungarian Atlantic Council. As an Institute Fellow, he is studying and writing about Hungarian minorities in the former Soviet-bloc nations of East and Central Europe. [EUROPE/RUSSIA]

Chenoa Egawa. An enrolled member of the Lummi Indian Nation, Chenoa is spending two years living among mesoAmerican Indians, studying successful and not-so-successful cooperative organizations designed to help the Indians market their manufactures, agricultural products and crafts without relying on middlemen. A former trade specialist for the American Indian Trade and Development Council of the Pacific Northwest, Chenoa's B.A. is in International Business and Spanish from the University of Washington in Seattle. [THE AMERICAS]

Marc Michaelson. A program manager for Save the Children in The Gambia, Marc has moved across Africa to the Horn, there to assess nation-building in Eritrea and Ethiopia, and (conditions permitting) availing and unavailing humanitarian efforts in northern Somalia and southern Sudan. With a B.A. in political science from Tufts, a year of non-degree study at the London School of Economics and a Master's in International Peace Studies from Notre Dame, he describes his postgraduate years as "seven years' experience in international development programming and peace research." [sub-SAHARA]

Randi Movich. The current John Miller Musser Memorial Forest & Society Fellow, Randi is spending two years in Guinea, West Africa, studying and writing about the ways in which indigenous women use forest resources for reproductive health. With a B.A. in biology from the University of California at Santa Cruz and a Master of Science degree in Forest Resources from the University of Idaho, Randi is building on two years' experience as a Peace Corps agroforestry extension agent in the same region of Guinea where she will be living as a Fellow with her husband, Jeff Fields — also the holder of an Idaho Master's in Forest Resources. [sub-SAHARA]

Daniel B. Wright. A sinologist with a Master's Degree in International Relations from the Nitze School of Advanced International Studies of the Johns Hopkins University, Dan's fellowship immerses him in southwest China's Guizhou Province, where he, his journalist-wife Shou Guowei, and their two children (Margaret and Jon) will base themselves for two years in the city of Duyun. Previously a specialist on Asian and Chinese affairs for the Washington consulting firm of Andreae, Vick & Associates, Dan also studied Chinese literature at Beijing University and holds a Master of Divinity degree from Fuller Theological Seminary of Pasadena, California. [East Asia]

Teresa C. Yates. A former member of the American Civil Liberties Union's national task force on the workplace, Teresa is spending two years in South Africa observing and reporting on the efforts of the Mandela government to reform the national land-tenure system. A Vassar graduate with a juris doctor from the University of Cincinnati College of Law, Teresa had an internship at the Centre for Applied Legal Studies in Johannesburg in 1991 and 1992, studying the feasibility of including social and economic rights in the new South African constitution. [sub-SAHARA]

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