

## Chapter 7

# Chinese investment in Romania and Bulgaria

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The Chinese government's 2004 'Outbound Foreign Investment Catalogue' ranked Romania and Bulgaria, along with Poland and Hungary, among the European countries offering the best opportunities for Chinese companies. Textiles, leather goods and luggage, TV sets, communication equipment, computers and other electronic equipment were the recommended sectors for investments in Romania, all of them industries in which China enjoys considerable export strength but has faced barriers because of its trade surplus (MOFCOM 2004; Pencea and Sincai 2014b). With regard to Bulgaria, the recommended sectors included agriculture, automotive and energy.<sup>1</sup> Moreover, Bulgaria and Romania, weaker economies with a low quality of governance, can be assumed to be particularly attractive to Chinese investors with comparative advantages in low-cost product segments and experience in behind-doors negotiations and personal lobbying (Jacoby 2014).

In fact, Chinese foreign direct investment in Romania and Bulgaria was relatively modest also 10 years after the publication of the foreign investment catalogue. Romania was the largest recipient of Chinese FDI in Central and Eastern Europe in the early 2000s, but its share declined after 2005 as Chinese investors shifted to Poland, Czechia, Hungary and other countries in the region. In 2015, Chinese FDI inflows amounted to 209 million EUR, about 0.3 per cent of total FDI inflows, and Chinese FDI in Romania accounted for less than 0.3 per cent of total FDI stock (Central Bank of Romania, 2016). Chinese investment in Bulgaria picked up only after 2007. China is a relatively more important investor in Bulgaria, where the overall FDI inflows are smaller. In 2014, Chinese FDI in Bulgaria amounted to 8 per cent of total inflows. In 2015, the absolute value increased, but the share in FDI dropped to 3 per cent of the total (National Bank of Bulgaria 2016).

In any case, individual investments with Chinese involvement tend to receive a lot of media attention in these countries. Politicians and officials tend to present Chinese investors as having important developmental potential for the two countries, which have received relatively little FDI and lack infrastructure investment. The media thus often report new large investment projects, including greenfield investments, as well as investments in public infrastructure that eventually are not realised.<sup>2</sup>

1. <http://www.novinite.com/articles/157260/China+to+Expand+Investments+in+Bulgaria%27s+Agriculture++President>  
<http://www.investbulgaria.com/infoNews.php?id=760>  
[http://usa.chinadaily.com.cn/business/2012-04/24/content\\_15123410.htm](http://usa.chinadaily.com.cn/business/2012-04/24/content_15123410.htm)
2. The information released to the public reports on signing unbinding and general memorandums of understanding rather than on specific contracts, which typically require institutional support from both countries involved. See, for example, [http://www.capital.bg/politika\\_i\\_ikonomika/bulgaria/2016/08/26/2817906\\_velikata\\_kitaiska\\_investicija/](http://www.capital.bg/politika_i_ikonomika/bulgaria/2016/08/26/2817906_velikata_kitaiska_investicija/)

At the same time, Romania and Bulgaria have been home to high profile cases of Chinese involvement in Europe. First, there are Huawei and ZTE investments in highly skill intensive operations in telecommunications that serve European markets (for the Huawei case, see Chapters 1 and 11 of this volume). Second, there is Litex Motors, the Bulgarian-Chinese project to relaunch automotive production with the assembly of Great Wall Motors cars from 2012. The factory was expected to produce 50,000 cars per year and employ 2,000 people. Both of these cases seemed to take advantage of the low-wage environment to bring Chinese technology to European markets.

The low wage profile is characteristic of Romania and Bulgaria. Central and Eastern Europe lacks companies that control leading technology and brands of the kind that attracted much of Chinese investment in Western Europe. Romania and Bulgaria also rank poorly with regard to the quality of governance and corruption. In this chapter, we investigate the extent to which Chinese investors have exploited these endowments and with what results. We also consider the extent to which the poor quality of governance might affect investment prospects. More specifically, it has been argued that local politicians tend to be sensitive to economic lobbying and to favour clientistic politics (see Mares *et al.* 2016). Moreover, these countries lack policy continuity as national-level politics is characterised by adversarial and polarised electoral competition (see Muntean *et al.* 2010). The frequent changes in regulation can increase the barriers for investors.

In this chapter we present case studies of Chinese investment in Romania and Bulgaria. In Romania, the cases represent 90 per cent of Chinese investment stock. We also consider high-profile cases of strategic energy investment under negotiation. In Bulgaria, where the overall investment stock is much smaller, we consider the case of Litex Motors, an investment project with a plan for a global breakthrough for a Chinese automotive company (compare Chapter 2).

The cases under consideration can be classified by distinguishing between market- and resource-seeking investment strategies (cf. Dunning 1993). It should be noted, however, that the majority of the resource-seeking investments considered in this chapter also have strong market-access aspects, allowing Chinese companies to enter EU and/or local markets, while exploiting some of the resources found in Romania and Bulgaria. Analysed in the two sections that follow, the market-seeking investments include simple retail activities as well as strategic energy infrastructure. The resource-seeking investments are motivated by low labour costs, natural resources and access to strategic resources (highly-skilled workforce). The respective case studies include DHS Manufacturing and the Friendly & Joy conglomerate that exploit low costs and natural endowments (Section 3), Great Wall Motors (Section 4), the telecommunication-equipment provider Huawei (presented in Chapter 11) and ZTE (Section 5).

The successful asset-seeking investors involve both relatively simple activities (low-end bicycles, wood and agriculture) and, as in the case of telecommunication equipment, highly complex services. In the latter context, Chinese investors can successfully exploit local engineering expertise as they are able to integrate them into production and innovation networks that support their leading position on the world market.

In contrast, the case of Great Wall Motors shows the limits of low-cost development where there is an absence of local expertise and capabilities and where the investor does not control frontier technology. Finally, market-seeking investments show that a lack of policy continuity in the region is not supportive of more complex involvement in strategic assets that requires long-term political commitment. However, the failures in infrastructure and energy sectors may relate to a limited ability of Chinese firms to cope with a degree of political unpredictability and public scrutiny, features that are not necessarily related to a low quality of governance.

## 1. Simple market-seeking investments: the Red Dragon trade centre

The first Chinese investments in the region constituted largely of individual- or family-owned companies involved in retail, selling cheap Chinese goods (Pencea and Sincai 2014b). The Red Dragon (*Dragonul Rosu*) Centre is the best-known of the trade hubs that have been established in Romania. A bazaar-like mall, the Red Dragon is rented on a long-term basis only to Chinese small entrepreneurs. A large proportion of commercial activities in the Red Dragon Centre apparently involved tax evasion and other illegal activities, however, such as dealing in counterfeit products (Nagy 2011). Many of the family-owned retail companies in fact do not qualify as ‘foreign direct investors’, but their apparent involvement in the shadow economy conforms to the expectation that Chinese companies come with an experience that allows them to operate in a corrupt environment. However, in the case of Red Dragon, dealings with local politicians were taken care of by a Romanian individual. There are also question marks about the extent to which these practices are specific to Red Dragon, as the shadow economy and corruption are relatively widespread.

The Red Dragon Centre is run by the Nero Group, which is owned by Nicolae Dumitru, a colourful individual who has been convicted in a number of corruption cases. Nicolae Dumitru has links to Chinese companies via the Romanian-Chinese House, an NGO aimed at developing economic collaboration between Romanian and Chinese companies. An anti-corruption campaign by the National Anticorruption Directorate (DNA) and the National Anti-Fraud Authority (ANAF) put pressure on economic activities in the Red Dragon. In April 2010, ANAF closed a majority of the six thousand shops in the Red Dragon on the grounds of tax evasion. In addition, recent investigations organised by the National Anti-Fraud Authority and prosecutors in 2015 and 2016 found numerous cases of undeclared income and many goods sold without documents (Nicolescu 2016; Liu 2016). A total of 80 per cent of the investigated shops were breaking tax laws to a greater or lesser extent, leading to the closure of some of them (Matei 2015).

Some claimed that illicit activities on such a scale had to benefit from political backing (Poenariu and Vanghele 2016). In any case, the Romanian-Chinese House, linked with the Nero Group, was associated with a number of high-ranking officials, including a former prime minister, governor of the central bank, the speaker of the Senate, the speaker of the lower house of the parliament and former presidents of Romania (Poenariu and Vanghele 2016).

## **2. Complex market-seeking investments: strategic assets in infrastructure and energy**

Energy and other strategic infrastructure has been a major target of Chinese investment in the EU. That has been the case also in Romania. However, none of the cases have been able to progress beyond memoranda of understanding (MoU). The requirement of a long-term political commitment to address the complexity of such deals makes such investments very demanding and prone to failure in the unstable institutional environment.

A number of projects were negotiated between Chinese and Romanian officials already in the early 2000s. Many planned investments were also announced in the media, including the construction of nuclear reactors 3 and 4 at the Cernavoda Nuclear Power Plant, the construction of the hydro-electric plant at Tarnița, the SE Doicești carbon plant, the Rovinari Thermal Power Plant, the modernisation of the Dimitrie Leonida power plant in Bicăz, the modernisation of the port of Constanța, the construction of a bridge in Braila and the construction of river canals on the Danube (Chiriu and Zoukui 2016). However, none of the projects were developed because of the lack of government policy continuity in Romania.

In 2012, the ET Solar Group, the world's leading one-stop provider of solar power solutions, announced that it would take over Romania's largest 50 MW photovoltaic power plant project and one year later completed the construction of an 18.5 MW power plant in Giurgiu county in southern Romania (Jiayuan 2016). The visit by the Chinese premier Li Keqiang in November 2013 revived Romanian-Chinese cooperation in the energy sector. The Industrial and Commercial Bank of China (ICBC) signed a memorandum of understanding on financial operation with the Romanian government in 2014 to provide financial services to Chinese companies with investments, projects and import or export businesses in Romania (Jiayuan 2016). The terms assumed that the Romanian government would play an organisational and coordinating role in creating a favourable business environment for the ICBC.

Subsequently, a number of bilateral agreements and MoUs have been signed for projects that were to be supported by the ICBC. Most importantly, there was the 6.4 billion euro projected in the Cernavoda plant projects, signed between Nuclearelectrica and China General Nuclear (CGN), for the development, construction, operation and decommissioning of units 3 and 4 of the Cernavoda nuclear power plant (World Nuclear News 2015a). The two companies were supposed to form a joint venture project in which the Chinese company would own at least 51 per cent of the joint stock (Pirvoiu 2016b).

Since some important politicians do not support Romanian collaboration with the Chinese companies, the successful conclusion of the deal is by no means guaranteed (Chiriu and Zoukui 2016). Significant political commitment would also be needed to overcome legal challenges, such as the use of Canadian technology in the existing plants (Economica.net 2016). There are also security concerns. For example, China General Nuclear Power has been accused of nuclear espionage, allegedly conspiring to develop nuclear material without UN approval between 1997 and 2016 (La Ganga 2016). The

project also involves state support that would need to be approved by the European Commission (Pirvoiu 2015).

The development of the Rovinari coal-fired power station represents another large project, involving a major investment by the Romanian government. In 2014, China Huadian Corporation set up a joint venture with Oltenia Energy Complex involving a planned investment of about 1 billion euros and installed capacity of 600 MW with an estimated 400 new jobs. In 2015, China Huadian and the Romanian government announced that it would build a 600 MW coal-fired power plant (Jiayuan 2016), but the project is still on stand-by because of political disagreements on the Romanian side.

A number of other infrastructure projects were announced some time ago, including the Tarnita hydro power station, a wind power plant, as well as high-speed rail (Jiayuan 2016). However, the resignation of the Ponta government in November 2015 put this energy project at an indefinite standstill. The PSD-led coalition government formed after the 2016 parliamentary elections did not express any interest in continuing the projects of the Ponta government.

### **3. Resource-seeking investments: exploiting low costs and natural endowments**

Romania and Bulgaria have also attracted Chinese investors that exploit their endowments. Low labour costs, low taxation and natural resources (wood and agriculture) play major roles in this context. In agriculture and forestry, the local resources can be utilized for sale on Chinese markets. However, the strategies of industrial investment combine exploiting local resources with gaining access to European markets.

DHS Manufacturing is a prime example of a company that takes advantage of low costs in Romania in order to serve European markets. It started in 1999 as a local reseller of bikes manufactured in China. Aiming to be one of the biggest players on the European market, it established a production plant in Deva in 2006, with total investment reaching USD 20 million. Employee numbers have averaged 250 since 2006 (and a maximum of 313 employees in 2013). The company produces all types of bikes and parts, but specialises in the cheaper segment, assembling about 1,200 bikes per day, or about 350,000 per year. Most of the parts used in assembly, including the frame, are imported from China. However, local activities include also more advanced functions, most notably product design, development and marketing. The company controls about 60 per cent of Romanian market exports to more than eighteen countries in Western and Eastern Europe. In 2013, it recorded turnover of more than 38 million euros.<sup>3</sup>

The multi-sectoral conglomerate Friendly & Joy Europe (F&J) represents an investor that exploits the low-cost environment as well as the natural resources. The conglomerate includes both greenfield activities as well as units that grew from local smaller companies acquired in the mid-1990s. It includes companies such as Sinoroma

3. <http://www.freerider.ro/mag/fabrica-dhs-vazuta-din-interior-17441.html>

in the tobacco industry, Lemnking Industry in wood processing, Vortex in electronics and Centrade in food and textiles (Alexandrescu and Mica 2006). The most important activities are in the wood industry, with turnover of about 50 million euros in 2005 (David 2006).

One of the oldest Chinese actors in Romania, Lemnking Industry, is one of the biggest wood exporters (China Radio International 2004). It employs about 500 people in the Buzau region. In 2003, around 70–80 per cent of the total amount of exported wood was from F&J. China is an important export market for the company. It plans to build a furniture factory in partnership with another Chinese company (David 2016; Zafiu 2015).

Sinorama is a cigarette factory built in 1997 with an investment of 3 million euros (David 2006), increasing to 15.7 million euros in 2006 (Alexandrescu and Mica 2006). Another unit of the factory was opened in 2007 after an investment of 36 million euros. A total of 80 per cent of production is exported to European markets, using raw materials from the United States, Brazil and China (Curierul National 2007). The locally sourced materials are used only for packing (David 2006). F&J has subsidiaries also in Hungary, Serbia, the United Kingdom and Brazil, but the company officials cite low labour costs, low taxes and cheap land as reasons for preferring production in Romania (David 2016; Daily Business 2007).

F&J is active also in electronics, operating under the low-cost Vortex brand. The company started its activity in Romania in 1998, producing small electronics appliances for Eastern European markets. The company's products were initially not received with positive attitudes and trust by consumers, but they attempted to improve their image by hiring a former director of Electrolux Romania (China Radio International 2004). The company was targeted by investigations on suspicion of tax and VAT evasion of up to 9 million euros in 2013 by making use of a chain of multiple companies (Neferu 2014).

#### **4. Great Wall Motors/Litex: the limits of low-road development**

The joint venture of Great Wall Motors and Litex in Bulgaria stands out from other Chinese industrial investments in the region that exploit the low-cost environment in relatively simple activities. The car producer Great Wall Motors (GWM) operates in a technology-intensive sector dominated by Western car makers (see Chapter 2).<sup>4</sup> A successful launch of the Litex venture would allow them to challenge European car makers in their home market. It would also revive the tradition of automotive production in a country that became marginal to the automotive value chains that dominate industry in Central and Eastern Europe and eventually also in Romania. Litex Motors's total investment plans amount to 70 million euros, including new premises for welding, metalworking and painting. However, it is not clear at what stage implementation of this project stands and whether it will happen soon.

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4. The GWM is among the smaller car producers in China. It has the largest output in the 4x4 segment.

The Bulgarian-Chinese project to relaunch automotive production with the assembly of Great Wall Motors cars in 2012 was thus perceived by policymakers and public opinion with enthusiasm and attracted large media coverage also in Europe and the United States. The factory was expected to experience significant and rapid growth, in terms of output, markets and employment in the following years, namely 50,000 cars per year and 2,000 jobs. Five years after the launch of the project, Litex Motors is still there and growing, but far from the optimistic forecasts and ambitious objectives.

GWM started talks with its Bulgarian partner Litex – a company established at the beginning of the 1990s with a range of business activities outside the metal sector<sup>5</sup> – in late 2009.<sup>6</sup> The Bulgarian partner is the main investor, contributing 90 per cent of the capital. GWM thus contributes mainly technology and knowhow. In practice, Litex is completely dependent on GWM technology as it re-assembles imported kits – only batteries are produced locally. There are no signs of importing HRM systems from GWM.

Litex Motors opened its plant for the production of Great Wall vehicles in February 2012, using a greenfield site outside Bahovitsa, a small village near Lovech in northern Bulgaria. GWM cited low production costs, cheap labour, the flat tax rate of 10 per cent and access to the EU market as a reason to invest in Bulgaria. The company intended to sell the assembled vehicles on the local market and throughout Europe, but mainly and firstly in South-eastern Europe. In 2016, Litex cars were available in Italy, Serbia, Macedonia, Romania and Montenegro.<sup>7</sup> Plans include expansion to other markets in Eastern Europe and the Middle East.

In the first year of its existence, Litex Motors produced more than 1,000 units of the Great Wall Volex C10 (a small five-door hatchback powered by a 1.5-litre engine).<sup>8</sup> Two other models were added, the pick-up Steed 5 and the 4x4 vehicle Hover H6 (a pickup truck and a sports utility vehicle). Early in 2016, car assembly stopped temporarily. About half the staff were released, also temporarily, without specifying the duration. The reason provided by the company was the adjusting of production lines for the production of new models and sufficient stock.<sup>9</sup> There was speculation – which the company denied – that the GWM motors had difficulty complying to Euro 6 standards.<sup>10</sup> In October 2016, the company announced that it would stop production of two models – the crossover Haval H2 (Great Wall's luxury brand) and the pickup 'Steed' 6.

5. Great Wall has hedged its bets by working in partnership with a local businessman, the Bulgarian oligarch Grisha Ganchev. Ganchev, who made a fortune from Bulgaria's transition to a market economy after the fall of communism there in 1989, owns a string of businesses, including a football club, sugar refineries, filling stations and Litex Motors, which reportedly put up 90 per cent of the nearly €160 million investment in the Lovech plant.
6. <http://www.nytimes.com/2012/05/23/business/global/made-in-china-but-assembled-in-bulgaria.html>
7. <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=224559084>
8. <http://bit.ly/2tcoidH> Prices started at 15,000 Bulgarian lev (7,500 euros), including large number of extras, 5 years warrantee and low-cost financing.
9. [http://www.capital.bg/biznes/kompanii/2016/01/13/2685168\\_zavodut\\_na\\_great\\_wall\\_v\\_bahovica\\_vremenno\\_spria\\_rabota/](http://www.capital.bg/biznes/kompanii/2016/01/13/2685168_zavodut_na_great_wall_v_bahovica_vremenno_spria_rabota/)
10. Capital Daily, 13 January 2016, Заводът на Great Wall в Баховица временно спря работа (The factory of Great Wall in Bahovitzta temporarily stopped working). [http://www.capital.bg/biznes/kompanii/2016/01/13/2685168\\_zavodut\\_na\\_great\\_wall\\_v\\_bahovica\\_vremenno\\_spria\\_rabota/](http://www.capital.bg/biznes/kompanii/2016/01/13/2685168_zavodut_na_great_wall_v_bahovica_vremenno_spria_rabota/)

While the automotive component industry is rapidly developing in Bulgaria,<sup>11</sup> there are no indications of integration in the assembly of GWM/Litex. Almost all components are thus imported, with few exceptions, such as batteries.

According to some estimates, GWM/Litex needs to sell 15,000 vehicles per year in order to be viable.<sup>12</sup> In 2012–2015, Litex Motors sold out about 3,500 cars, mainly in Bulgaria, but only one-third of them were actually produced there, with a majority being imported from China.<sup>13</sup> In 2016, Litex sold only 436 cars in Bulgaria.<sup>14</sup> In 2014, the last year for which financial reports could be found, revenues were driven by exports, with turnover increasing from 30 to 71 million leva. The company also, for the first time, recorded a profit of 8 million leva. However, in 2017, the company entered into a bankruptcy procedure, although the management stated that it intends to continue producing as planned.<sup>15</sup>

At full capacity the plant is expected to employ about 2,000 people, but for the moment this seems overambitious. At the beginning of its operations Litex Motors hired about 120 employees. Their number peaked at 200, but fell to about 150 in 2016.

The company claims on its website to ‘put into practice one of the most advanced management systems for the production of vehicles in the world’, but the reality seems to be rather different. The management team consists of foreign consultants and managers with long experience in the manufacturing of the world’s leading car brands. However, the workers and engineers seem to need very little training and experience. The average age of the operators is only 19 years and of engineers just 25 years. The newly hired workers require only a short training in order to be operational, which suggests that operations are rather simple.<sup>16</sup> HRM practices seem to be developed within the local company, with little influence from the Chinese shareholder.

The company’s social policy includes free meals and free accommodation near the factory. The company also organises training courses for engineers and designers. The opportunities for employees’ voice are limited, as there are no trade unions in the company. According to Bulgarian trade union officials, the company ‘does not cooperate’ with trade unions and is even hostile to trade unions (a situation common in multinationals active in Bulgaria). A trade union federation made an attempt to organise employees in Litex, but they did not succeed as the management insisted that they needed permission from the owner. The unions also tried to meet workers outside the plant, but they were not able to find employees willing to join a trade union. In general, as for the other union respondent, unionisation seems to be very difficult in subsidiaries of multinationals, especially in greenfield companies (see also Daskalova *et al.* 2009). People are afraid, especially in small towns where job opportunities are limited.

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11. <http://www.zovzaistina.com/test1/wp/?p=4435>

12. <http://www.nytimes.com/2012/05/23/business/global/made-in-china-but-assembled-in-bulgaria.html>

13. <http://www.mediapool.bg/prikluyuchi-tretyat-opit-za-zavod-za-koli-v-bulgaria-news261957.html>

14. [http://auto.offnews.bg/news/Novini\\_1/Top-20-na-naj-prodavanite-leki-koli-v-Balgaria-za-2016-g\\_20093.html](http://auto.offnews.bg/news/Novini_1/Top-20-na-naj-prodavanite-leki-koli-v-Balgaria-za-2016-g_20093.html)

15. <https://seenews.com/news/bulgarias-litex-motors-files-for-bankruptcy-563204>; <https://fakti.bg/avto/230356-oficialnoto-izavlenie-na-litex-motors>

16. [http://www.lovechpress.info/index.php?option=com\\_content&task=view&id=11097&Itemid=0](http://www.lovechpress.info/index.php?option=com_content&task=view&id=11097&Itemid=0)

## 5. Strategic-resource seeking investment: telecommunications equipment

Chinese investment in the telecommunications-equipment sector in Romania is an example of a successful investment that exploits local engineering skills (hence an asset-seeking investment). These are exploited by Huawei (analysed in Chapter 11) and ZTE in providing services to European mobile network operators. The strategic value of the engineering knowhow is in the extremely favourable price/quality ratio, given the low wages of engineers in Romania relative to the rest of Europe. The European strategy of these Chinese telecom-equipment providers combines the use of Romanian engineers in technical support for deployment services around Europe, the innovation network that relies on engineers employed at the Chinese sites and financial support for market expansion through Chinese industrial policy (see also Chapter 1 for discussion of the overall business strategy of Huawei and ZTE).

ZTE set up a subsidiary in Romania in 2004 with the aim of creating, in partnership with the Romanian National Postal Company (Posta Romana), an alternative landline operator to Romtelecom, the state-owned monopoly provider. The joint venture was to be funded by Import-Export Bank of China through a USD 130 million loan (Alexandrescu and Mica 2006; Lebedencu 2004). The venture enjoyed the political backing of the left-wing PSD government led by Prime Minister Adrian Nastase. However, the project came to a halt: a political commitment in the form of state guarantees for the loan could not be guaranteed given the lack of a broader political support and opposition to the project from the EU, the IMF and the World Bank. In addition, there were plans to build a manufacturing plant, but the company eventually opened only a logistical support centre employing about 150 workers and continues to source hardware from Asian plants.

ZTE eventually found itself pursuing a similar strategy to Huawei: since 2014, it has used Romania as a technical support hub for its European operations, particularly in serving telecommunications networks in Germany and Romania. ZTE Services in Timisoara employs about 200 workers (Deaconescu 2016). Apart from Germany (where it won contracts from Telekom and E-plus), ZTE has been successful also on the Romanian market. It controls about 30 per cent of the market for telecommunication equipment, focusing on the public sector (Vasilache 2011).

In 2015 the employees from ZTE Services tried to organise collectively with the help of the IT Trade Union from Timisoara. However, the union failed to achieve the 50 per cent coverage required by Romanian law. Management, both Chinese and Romanian, took a hostile approach to the union. Nevertheless, a works council operates in the company and negotiates a collective agreement (with a Romanian manager who needs approval from Chinese superiors). Interviewed employees reported the working conditions and pay to be comparable to other companies in the sector.

## 6. Conclusions

The flows of Chinese investment into Romania and Bulgaria have been modest, contrasting somewhat with the expectation that the countries could serve as a gateway for Chinese companies to Europe. Two types of companies have been able to take advantage of the low-cost environment and access to European markets. First, Huawei and ZTE established European hubs for technical support for communication network equipment. Apart from the low cost, they take advantage of the Romanian education system that is able to produce engineers that the company can use to serve European customers. This high-road strategy can be successful as these companies are market leaders and control frontier technology in their sector. They are clearly beneficial to the local economy as the companies employ highly skilled engineers and pay wages that are high by local standards. Expansion by these companies may also support the formation of technology clusters in the region. However, relying on the comparative advantage of lower costs than in Western Europe raises questions about the low value retention in the region (cf. discussion in Chapter 11). Moreover, there are questions about the sustainability of such development as the technical support activities may be vulnerable to automation.

The second type of successful investment exploiting local resource endowments includes the relatively simple industrial activities, centred on assembly, that benefit from low wages and proximity and access to European markets (for example, DHS Manufacturing and the affiliates of the F&J group). The risk of such low-road strategies is that they lock the region into activities that compete primarily on low costs.

The joint venture of GWM and Litex, attempting to launch production in a complex industrial sector, highlights the limits of combining a local partner that, apart from capital, cannot offer much more than the ability to employ workers at low cost and provide access to the EU market with a Chinese investor that apparently lacks the technological capabilities that would allow it to compete with the leaders in the sector, most notably Renault/Dacia in the lower-cost segment.

Finally, there were no signs of Chinese investors taking advantage of their apparent ability to cope with more challenging institutional environment. On the contrary, a lack of policy continuity or an ability to guarantee long-term political backing for complex investment projects effectively prevented Chinese involvement in energy infrastructure projects. In fact, Chinese infrastructure companies may be less experienced in dealing with political unpredictability and public scrutiny, features that are not specific to a low quality of governance but to democratic politics.

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