

## Effects of production relocation on human resources

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**Abstract:** Extensively discussed and analyzed (many times controversial), globalization is accepted as an objective phenomenon, by its size and unrivalled evolution in the world history. Both globalization and regionalization have emerged and developed as a result of the unprecedented intensification of competition among economic agents, countries or regions. Many countries have been helped to develop at a much faster pace than they would have normally done under other circumstances. An advantage of the accelerated development of their economies was explained by reducing barriers to international trade (as a globalization effect). The international trade can significantly contribute to the growth of a nation, and on its turn, being influenced by the exports, represents the central component of a state's economic policy, one that contributes to improving living standards of millions of people and to the national development. (Drucker, P., 1997). However, this requires a shift of the human factor from one area of the world to another. The temporary or permanent migration, driven by the economic development, may still be an important element to strengthen the power of certain economies on the detriment of others? Absolutely. In fact, the economic future will be a regionalization of wealth in other areas than those well known. And this will lead or amplify, at every level, the social, politic, economic and even military confrontations.

**Key words:** globalization, regionalization, relocation, forms and effects of the relocation.

### 1. Introduction

The environment in which companies recently develop has radically changed in the

past ten years. The customers took control and they accept less and less to be perceived as mere members (anonymous) of a collectivity and want to be treated as a distinct and

concrete individuality.

If, in a not too distant past, companies were independent, belonging to one country, gradually, as they approached the client, they encouraged a process of transfer of the production to other geographic areas, by placing subsidiaries and branches, characteristic to the „new economy“ based on advanced technology, high performance, which allows certain processes to be more efficient if they are made by other companies (also). The parent companies hope to gain important profits by using local, cheaper resources, but the host country is also in advantage because the foreign companies absorb a part of the local workforce and the products made here are marketed to the company-parent, thus encouraging international trade flows and jobs in the field.

According to experts, the world market globalization leads to increased skills, to a more efficient economic activity, but also to a reduction in the employees' social protection. In any place in the world, where goods or services are freely negotiated, never to take into account any border, employees are caught in an apparently unstoppable maelstrom of their own value assessment.

One of the most important manifestations of the current globalization process is the relocation of production with direct impact on the labour market.

In the new model, different from the typology of the traditional theories of economic development, a key role is held by the increase in competitiveness due to the differentiated use of the labour factor at global level, as well as of the costs associated to it. The fundamental hypothesis of the Heckscher-Ohlin model and the theory of international trade appear to lose validity as the relocation of

production is in continuous expansion as well as the trade with intermediary goods, which induces changes in the labour demand on the world market (in the developed countries, the scarce demand for the low-skilled activities and the increase for those requiring high skills created bigger disparities between wages).

In fact, we are assisting to a transnational exploitation of production factors, which alters the credibility of traditional tools of assessing the economic growth within a particular national space, as well as the real contribution of its various components, both as supply and demand, especially the foreign one. Thus, the flow of intermediary goods subject to so many transformations, crossing so many borders and distorting national (foreign trade, manufacturing, balance of payment etc) and international statistics, is, in essence, only a work transfer. In most cases, because of extremely high differences in labour costs on the global market, in order to make costs more effective, the production of goods and services has to be oriented according to this variable, which, in its turn, influences the movement of capital flows and even the workforce flow.

The configuration of the world economy depends more and more on decisions to optimize the allocation of resources at world level (Druker P., 1997), as well as on how each state leverages its comparative advantages in labour costs, attracting a smaller or bigger part of the sub-contracting at world level.

## 2. Literature review

There were many theoretic approaches, both in our country and abroad, either by experts used to observe and analyze the economic phenomena, or by the managers who live them – create and shape them according to the market signals. There is no surprise the

concepts of globalization, relocation of production and labor market are taken together by names like Bari, I., Bauman, Z., Brezeziski, Z., Friedman, Th.L., Iancu, A., Marin, D., Soros, G...

### 3. Paper Content

In this context, the relocation of production may be defined as the displacement of the economic activity from the country of origin to another country in order to achieve a lower cost of the production factors, accompanied by the closure or reduction of activity in the country of origin in order to expand abroad.

In most cases, foreign investment in developing countries is a representation of the relocation process. In search of lower cost of the production factors, the western countries invested in these countries in order to enter their own markets with products made with a higher degree of competitiveness.

If we consider the relocation of production and services involves a transfer of jobs from developed countries to developing ones, the key issues that arise are:

- solving problems caused by increasing unemployment in the first group of countries;
- Sustainable economic growth induced this way, in the second group...

Generally, the mechanisms used by companies to relocate their activities to foreign destinations are:

- *Offshoring* – the location by a company from a particular country (called the parent country), of parts of its activities abroad by setting up subsidiaries or branches, while retaining ownership of the entire production process. The level at which this activity take place is intra-company;

- *Outsourcing* – the process of contracting, by a company in a certain country, of parts of the production process (including production services for IT, accounting, human resources management etc.) to suppliers located in other countries. This is a process made inter-companies.

### 3.1. Relocation by offshoring

The economic logic of this process is to reduce costs by exploiting the comparative advantage held by the country of destination, through reduced labour costs. So that the parent-company will be able to sell freely, at good prices, the products obtained in the host country with lower costs than using local workforce.

#### 3.1.1. Production offshoring.

Involves moving production units to places with lower costs.

Product design activities, as well as the research and development processes which lead to new products are relatively difficult to relocate. This is because research and development necessary to improve the products and create new design standards require skill levels that are difficult to obtain in regions with cheap labour. For this reason, in many cases, only processing will be relocated by the company that wants to reduce costs.

#### 3.1.2. Services offshoring.

Increased relocation of services is facilitated by the existence of an important available infrastructure which, in the conditions of extended digitization of many services, made possible the change of location to countries with low costs, in a transparent manner for the end users. .

This process generates benefits for the host country and for the parent country

through free trade: creation of jobs for the country of destination and goods and services at lower costs for the country of origin, while both the countries register a GDP growth. The total number of jobs will increase in both countries, when workers in the country of origin (left without jobs), can orient towards jobs requiring higher skills, for which their countries hold comparative advantage.

If a company moves production of goods and services to another country, its investments, not being made on the domestic market, are transferred to the foreign market (Zaman, G., Geamane, M., 2006). The offshoring creates and strengthens the competitive industries in the host country, while, strategically, lowers their counterparts in the countries of origin.

A solution for the workers made redundant through the process of offshoring in the countries of origin is retraining for new jobs. Requalification in another field, at the same skill level cannot be considered an option in most of the cases, because of the large number of years of study and the costs involved.

### 3.2. Relocation by outsourcing

Most of the times, in order to define the transfer abroad of manufacturing operations, processing, transformation, assembling of goods and/or provision of services (computer, financial, legal etc.) we use the term "outsourcing", which could be translated by "subcontracting."

Although outsourcing often refers to goods and services, expressing the typology of this complex phenomenon, in the current commercial language, in order to define the temporary import of goods for processing

(assembly, processing, repair etc.) and re-export of the products, we use the expression "inward processing". The reverse, the temporary export of goods for processing in another country and re-import of the products is called "outward processing."

Among the reasons why companies turn to outsourcing are:

- reducing operating costs;
- the company's focus on a wide range of business segments;
- the implicit access to investments in technology, methodology and labour ;
- reducing the capital to be invested in adjacent business activities;
- risk sharing between several companies;
- company's resources orientation towards basic activities;
- smoother tracking and sharing of costs;
- achieving additional benefits: specialized, complete solutions, of a professional level, ease in installation and configuration, integrated, powerful, flexible and reliable applications, increasing productivity and efficiency, reduce or even eliminate storage needs, more motivated employees (they will be more intensely involved in activities for which they are qualified, increasing their self-esteem).

In our scientific approach we considered that, according to the mechanism of generating the process of relocation of production, it is possible to measure its expansion, in the two directions. Thus:

- the share of multinationals doing business on the territory of the host country (offshoring) can be reflected in the foreign direct investments (FDI);
- the share of overseas transfer of

operation of processing, assembling of goods and/or provision of services (outsourcing) could be reflected by data on trade, especially inter-company trade and trade with intermediary goods, the commercial balance account etc.).

### **3.3. Workforce in Romania – contributing factor for relocation**

The human resources, the social capital, the education and research, are key factors at the base of multinational corporate decisions to relocate their production in our country.

The relocation of production is intended, first of all, to get a lower cost of labour in other country than that of the investor's. Thus, labour costs in Romania are at the lowest levels in the region, transforming the country into an attractive target for foreign companies.

Even if this situation affects the purchasing power of the population, it can also bring advantages, in the sense that more European companies could consider transferring production to Romania. In addition, investments in countries with very cheap labour, like China and India, have the disadvantage of higher transport costs of finished goods to Europe, which counterbalances the savings made with the salaries.

Another reason why Western companies invest in Asian countries is the fact that they gain access to the local market. Locally, in the host countries, the companies' sales are protected to a certain extent, because, a raise in salaries and production costs is associated with an increased consumption and therefore of the sales. In the same time, also in Romania there are wage differences between employees in different sectors.

The results show that employees working in certain sectors, such as financial and air transport, get bigger wages, while those employed in agriculture, hotels and restaurants, food industries, have the lowest incomes.

On the one hand, it was assumed that there is a positive correlation between the size of the company, wages and wage differences between the sectors. For example, wages in sectors dominated by large companies are higher than those in sectors where the majority is made of small companies. On the other hand, there are only partial explanations regarding the effect due to the size of the company on wages. It is known that certain industries employ staff with high qualifications (financial, air transport, telecommunications) and are highly capitalized compared to other sectors and therefore offer their employees higher salaries. Finally, some industries offer harder work conditions (risky) and thus must pay higher wages.

### **3.4. Relocation in Romania**

#### **3.4.1. Relocation as direct foreign investment (DFI)**

In the vast majority of countries in transitions, relocation is represented by direct foreign investment. In search for lower costs of production factors, the Western companies invested in these countries in order to introduce the products obtained on their own market, with a higher degree of competitiveness.

Multinational companies substantially contribute to increase the number of foreign investments motivated by a growth in efficiency, with important implications on exports for the recipient country, on economic growth or competitiveness. The latter requires the development of new markets, both

to reduce production costs and to better capitalize the final result, but it also obliges to address new forms of international production, ownership and contractual agreements that potentiate their market power, such as mergers, acquisitions, minority or majority participation, public exchange offer etc.

It should be noted that such investments were a characteristic, almost exclusively, of the European Union countries. The association agreement concluded immediately after the 1990 and the steady trend of the transition countries towards integration favored the investment flow to these countries, which have become perfect areas of relocation for companies of the member countries. Thus, one can consider that relocation investments have been an element of approach and training for the economies in transition by/and for the European single market.

Using cheaper production factors from the countries in transition has not only meant creating jobs and a certain contribution for their economies, but also a substantial growth in their compatibility with the requirements of the European single market (Druker, P., 2001). The products, destined to this single market, were fully compatible and competitive, which meant the creation, in the candidate country, of an entire infrastructure of production and a managerial mentality required by EU rules.

The investments of EU countries in candidate countries, whether private or public, were characterized by the presence of a "European spirit", translated by the knowledge that they will all be part of the EU capital in the future. Investments were always aimed not only to immediately and under any conditions make the invested capital efficient, but also to ensure this efficiency by

making its structure and management compatible with the European single market requirements.

In a country undercapitalized like Romania any foreign investment is and will be welcome. The beneficial effects of foreign investment on the Romanian economy, from creating jobs to the transfer of management mentality, matters and a growth in investments is automatically a factor of the economic growth and of raising the living standard. But any foreign investment should be analyzed not only through its efficiency effect, but also in terms of contribution to the integration effort. It is not enough to create new jobs or develop production, it is also important to increase the quality of jobs and the type of industrial development.

Romania continues to be, in terms of foreign investments, on one of the last places in the ranking of countries in transition. This difference could be explained by the position of policy makes towards direct foreign investments, which differ both in content and consistency.

In Romania, until 1996 there was a stable and attractive legislative frame, but the privatization offer was very low and did not include public utilities or banks. In the period 1997-2000 the situation was reversed, the legislative institutional framework had become extremely unstable, but the privatization offer increased significantly. After the 2000 elections, the promotion of direct foreign investment was distribute among several institutions without an adequate budget, a reality completely different from the rest of the countries in transition. The year 2004 was a very productive one for the Romanian Agency for Foreign Investment, 50 new projects, whose combined value exceeded 3.3

billion euro, being in different stages of implementation. In 2005, new areas appeared, especially in the export-oriented industries.

To call on foreign investments is necessary and must be seen as a positive factor from many points of view. One of these is the fact that for the Romanian economy in transition the role of direct foreign investments is crucial, as our country is in closer relations of cooperation with the EU countries as a result of joining the EU in January 2007.

Small companies and individual investors can act on an imperfect market, because they have minimum inertia, are not involved in large investments with long technological cycles and can quickly capitalize favorable cyclical situations. In this context, we can estimate that increasing the number of medium-sized companies among foreign investors will be a true barometer of the normal functioning of the Romanian market economy. The SMEs are more vulnerable than large companies in the current processes of trade liberalization and economic integration. In this context, their ability to survive, to achieve a size which is efficient from the economic point of view and to create new jobs depends on a number of factors, including their ability to innovate and engage in cooperation activities.

In order to become a functional market economy able to compete on the single market, the Romanian economy should strictly follow a strategy of priorities, whereby emphasis is placed on those industries and areas with the chance to become compatible with EU structures and markets. The prospects for development of foreign investments in Romania are moderate. Progress made for the EU accession can be a positive factor, but it is not enough. It is expected that the direct

foreign investments in Romania to experience a slow growth on medium term, a real change can only be expected when the stage of functional market economy is attained, when the sustainable economic growth is resumed, when certain structural modifications in the Romanian economy are made, when the private sector is strengthened and the legal and institutional framework is stabilized.

Romania has been and could continue to be a destination increasingly attractive to foreign investors by EU membership, adoption of the EU acquis and the low price of high qualified workforce compared to other EU countries. Taking into account the gradual reduction of transaction, financing and production costs which is lower in Romania than in the other member states, it is possible to witness the relocation of production processes here. Romania could become more attractive to investors coming from non EU countries such as Japan and the U.S., because they can avoid customs duties on exports to the European market, with direct implications on the product's price.

The main domain for foreign investors was industry. In an analysis regarding foreign investments on fields of activity, between 1991 and December 2005, industry ranked first (52%), followed by professional services (21.7%), commerce (14.9%), transport (7.1%), tourism (1.8%), construction (1.7%), agriculture being last (with a rate of 0.9%). Land prices, lower than in other countries in the region, the developed infrastructure, the skilled and cheap workforce, the existence of production abilities and tradition in the field, were the main reasons for which investors turned to industry.

The distribution on the eight regions of development of these capitals accounting for

FDI shows a very uneven distribution. Only Bucharest-Ilfov region has attracted 710 million dollars of the total of 1.13 billion dollars. The largest investor in the area at present was Mobifon, where shareholders in Cyprus, Netherlands, U.S. or Ireland decided to invest \$ 228,500,000 in the mobile operator.

Another pole that attracted major investors is the Central region, the value of investments amounting to 140.6 million dollars. Austrians are in the top (with investments of \$ 64,000,000 in a wood processing plant called Holzindustrie Schweighofer) and Germans (who built a Selgros store in Brasov totaling 22.8 million dollars).

In a classification on regions the third ranked South-Muntenia (with investment of \$ 94,200,000), then: North-West region (74.6 million dollars), West (55.96 million dollars) and North-East region (41.5 million dollars). The counties located in the south-east and south-west of the country have been bypassed by foreign investors. Statistics showed that the Dobrogea region attracted only 9.3 million dollars in significant investment, while Oltenia only 4.4 million.

**Effects for the host country**

**A. Advantages**

FDI can have major positive effects on the economic climate of the host country by transferring capital, technology and managerial resources that otherwise would not be available for the respective country. The FDI effects on employment are both direct and indirect. Direct effects occur when, by opening subsidiaries it is created an offer of jobs where locals are hired. The indirect effects are the creation of jobs in the upstream and downstream sectors where direct investment has been made, driven by collaboration

between foreign companies and local companies (supplies, distributors) which increase capabilities. Generally, indirect effects are at least equal to the direct ones.

There are three major potential effects of FDI on the balance of payments:

- Through the opening by a foreign company of a subsidiary, the credit capital account of the host country increases with the initial capital investment;
- The balance of payments is improving because what was previously recorded as import in the relations with the host country now disappears because the production units in the host country;
- If the parent company uses a subsidiary to export goods and services in other countries.

**B. Costs**

The most important negative effects affecting the host country are found in the competition with local companies, negative effects on the balance of payments and the sovereignty and local autonomy.

**Effects for country of origin**

**A. Advantages**

First of all, regarding the capital account of the balance of payments, the earnings from the foreign subsidiaries are returned to the country of origin.

Similarly to the effect on the balance of payments, the degree of employment can be increased, if it is created a demand for the import of certain components from the mother country in the host country.

The foreign companies can improve their management and production technologies. If they pass and implement the knowledge acquired in the country of origin, the result will be a net gain for the economy of this country.



### B. Costs

The capital account is deteriorating because of the initial flow of FDI capital required.

Jobs created in the country of origin are actually transferred or exported into the FDI host country.

In 2005, through FDI 197,000 jobs were created across Europe, a figure down 13.5% compared to the previous year. This downward trend is explained by the average of jobs created by each project. If Western Europe was characterized by many projects, with a small number of related jobs, on the contrary, due to lower labour costs and green field investments, Central and Eastern Europe had a small number of projects, but each with a considerable number of jobs. 97,880 jobs were created in the region, among which 37,775 only in Poland and 12,395 in Romania. .

The FDI exercises on the employment market both direct effects (by creating new jobs, by opening new branches in the host country) and indirect effects (creation of jobs upstream and downstream that sector, driven by collaboration between local companies with foreign companies – suppliers, distributors – which are improving their capacity). Generally, the indirect effects are at least equal to the direct effects.

For this reason, achieving a precise and very direct correlation between attracting FDI and creating a number of jobs is quite difficult. It can be done, however, a correlation between the changes in the share capital of companies with foreign participation in the period 1991-2005 and the evolution of unemployment at national level for the same period. In general, high levels of share capital of companies with foreign participation correspond to low values of unemployment.

The conclusion may be extended in terms of unemployment, i.e. employment of workforce in developing regions. The curves that represent the unemployment of each region of development usually follow the curve of unemployment at national level, as a trend, but at different levels, since each region has a different level of attractiveness for foreign investors.

It should be mentioned the tendency to locate human resources in the recent years, due to increasing FDI in:

- Clothing and footwear industry, due to the sectors' offering large capacity, traditions and existing skills plus the ability to develop and design skills and create new products with higher added value;
- Production of furniture, in the wood-working industry, because of the existence of raw materials and the necessity to exploit it rationally, protecting the forests by creating products with higher added value of less wood. The furniture industry has a long tradition, its contribution to development is important and the number of persons employed is high.
- IT&C and offshore outsourcing because of the high potential of human resources, the increasing importance of IT outsourcing worldwide and its ability to stabilize and preserve the country highly skilled workforce, thus stopping its outward migration;
- Specialized metal parts and components for the automotive industry with high added value due to continuous specialization in the world market combined with the growing importance of global value chains relocation;
- Electro-technical products, because of specialized and technical skills, ability to

improve and export technical content with high added value ;

- Tires, rubber goods, benefiting from tradition, the existence of strategic FDI and a great capacity to adapt to market conditions, with specialized products ;

- Plastic products, pharmaceuticals and fertilizer, chemical industry sub-sectors that have managed to adapt better to the period of transitions and to orient towards products or services required by foreign markets;

- Viticulture, glassware and handicraft sectors namely the sectors where are very important competences and creation of competitive advantages by capitalizing culture, tradition or natural environment, conditions and aptitudes. Their potential to combine the synergies with tourism is also significant.

- Rural tourism, spa treatment or organic farming are areas in which consumer behavior show a growing interest worldwide and where Romania has the unique goods that it can offer such as environment, culture and tradition;

- High potential services (promotional event, transport, consulting, engineering, finance, quality management, creation of skills, research and development, environment etc.) thanks to heterogeneous reasons such as: availability of highly trained human resources (engineering, consulting, research and development).

From the analysis of trade relations and investment strategies structure of certain companies that have invested significant capital to take advantage of low labor cost, but have not shown any concern to overcome the Lehn production, which makes the respective fields less compatible with the single market. Lehn production is not a preparation for the Romanian industry for

the state of competitiveness needed for 2007. Even though many say Lehn could be useful for our economy for a long time from now, it has to be considered that it is less productive in terms in value added tax in industry as a whole. Romania should be oriented towards EU foreign investments, towards achieving the state of integrated economy by fostering development and the innovative and marketing segments. In this way we could have an industry that would meet the requirements of the single market in terms of value added tax.

Production development strategy should consider the product's compatibility with the single market requirements, bringing income and consumer type on the Romanian market at EU level, and not the disparities in structure, standards and quality of consumption among different national markets present in the EU. Creating a new product, destined only to the Romanian market and other outside-EU countries, not only marginalizes Romanian production in terms of access to EU market, but also questions the extent to which the respective investor supports Romania's integration in the EU.

#### **3.4.2. Relocation as outsourcing in Romania**

The twenty-first century tends to be characterized by a new organizational formula in terms of international businesses, derived from capitalizing comparative advantages at world level, by which the parent companies (usually cross-border) maintain the single control center, but create a system whose functional sectors (technical and material supply, research and development, production and sales) are placed in other different companies, owned by themselves or by partners, from different countries. It is

becoming increasingly clear that the global economy is in a phase of deep and rapid change, the process of outsourcing bringing a major contribution to the vertical integration at world level of these activities. Among the contributing factors of such an extension and which complete the variety of comparative advantages is: lower transport, communication and coordination costs, liberalization of international trade, as well as the geographic vicinity.

The global outsourcing of goods and services involves more or less visible cross-border movements, which are measurable. Although, in what concerns the goods, there are control and tracking systems imposed by customs, most often they are not filled with the specific instruments needed for the economic analysis. Regarding services, things are more complicated due to multiple transfer ways (telecommunications, internet etc.), which makes it difficult to correctly assess these flows.

The extent of international trade of goods as processing, respectively the mutual supplies of goods (raw materials/finished products, components/assembled products etc.) can be demonstrated by the fact that statistical data on world trade places such activities at a level of 40%. Some Eastern European countries (Hungary, Romania) hold 50% (and over) from the total of exports for this type of operations.

The reason this type of activity is so extended is that both partners benefit from it, even though in different proportions (Bauman, Z., 1999) On short term the advantages are:

- The general contract holder (usually from a developed country) obtains products with lower costs than those found in his

country of origin, and therefore more competitive on the market;

- The subcontractor, respectively the operator from the third country (usually a developing state) makes a profit, often modest, but steady.

However, on long term the operator's profit can be much higher, if he can obtain, free of charge, know-how and to adapt it to a production on his own for the domestic or foreign market.

Perhaps the most important effect of processing in the developing countries, particularly in Romania, by connecting in real time to changes on global demands, is the potential to accelerate the functionality of the domestic market and its integrations on the European single market and on the world market.

The main risk in the processing operations is represented by the fact that the host countries cannot assimilate the productive qualification, the expertise and the market and sales strategy, and in the case those operations will be relocated in other regions that offer higher comparative advantages they will be in a state of collapse or in a less serious situations, but generating social costs.

In response to growing pressure from the developing states in the traditional sectors, even cross-border states have adopted strategies of international fragmentation of production, transferring parts of it, initially labor-intensive related sectors/activities, and then capital-intensive sectors/activities, to geographic areas with lower costs in this respect.

The extension of the active processing phenomenon, namely introducing in Romania (as temporary imports) some raw materials, components etc. and their

re-export after being processed in the country, can be highlighted by the analysis of the foreign trade evolution according to the customs regime of export and import goods (Zaman, G., Geamane, M., 2006).

Once Romania joined the EU, as a result of the appreciation of the national currency and the growth of real wage, Romania's comparative advantages were reduced, especially on workforce costs, which influenced the degree of attractiveness for the active processing.

If the extension of active processing in Romania is in essence a positive phenomenon, with an important contribution to the GDP creation and growth, its economic, and not commercial, motivation makes a correct assessment of the status of our country's foreign trade to exclude this component from the whole image and to strictly concentrate on products subject to final export/import.

The value of goods imported as FDI is nominal (not their actual payment) and increases, artificially, the value of the total imports. It is also included in the value of the FDI exports, nominally (what is actually charged is the amount of active processing operation)

Companies that produce using this operation benefit of certain fiscal facilities: exemption from payment of import custom duties for goods intended for re-export, after undergoing processing, repairs. Also, they will receive back the duties collected when the final products are exported, this system being introduced as an incentive for economic operators.

What is important is that all goods introduced in Romania under customs postponed payment of exercise regime remain the property of the respective foreign

company. Consequently, their subsequent introduction in Romania's exports, together with the Romanian products, appears only as a statistical convention, which should be considered in the correct interpretation of the data regarding the evolution of foreign trade and the real export potential of our country. In most cases, imports are temporary, with nominal recording of their value, and can be found both in the number of total imports and exports. What is significant in terms of flow of payments is only the difference between exports after the active processing and the respective temporary imports, namely the corresponding currency contribution (consisting mainly in the value of actual work submitted in providing such services).

After the CMEA trade disappeared, the Romanian trade flows were gradually oriented towards the EU, especially after Romania signed the European Association Agreement in February 2002. More important than its relative size, namely the increase of Romanian exports in the EU, from approx. 35% in 1992 to approx. 68% in 2003, accompanied by a significant increase in total EU imports, is the increase in the total value of exports in EU, from only 1.2 billion euro in 1992 to 10.6 billion in 2003, as well as the imports from the EU, from approx. 2 billion euro to more than 12.2 billion euro in the same period.

After accession, Romania was selling 73% goods to developed countries, although their share in total exports decreased by 1.6%. Mostly, the increase in trade flows was not due to economic restructuring, to increased competitiveness of Romanian products or to the promotion of a successful trade policy, but it was based on the fact that our country has been used as one of the very few sources for global outsourcing.

The final exports were and remain undersized, reflecting the modest potential of our economy compared with the requirement of external markets. In the structure of final exports, raw materials or products with a low degree of processing prevailed (food, minerals, chemicals, wood, metals), which together account  $\frac{3}{4}$  of these; this data shows the low external competitiveness of Romanian products.

Approx. 46.2% of Romania's total exports were exports based on a subcontracting agreement. Of the total exports to the EU, 58.6% were exports based on subcontracting certain activities from the developed countries. The best known examples are in the clothing industry, footwear and electrical machinery, because of low labor costs and the need to modernize the production capacities of Romanian companies.

By analyzing the amount of imports and exports by main product groups subject to active processing, we can clearly observe the increased amount of exports compared to imports, thus creating an image of the size of labour contribution in attaining them. It is basically an export of workforce, and not a "clean export,"

Besides the fact that Romania is known as a major exporter of textiles, garments, and auto parts obtained by active processing, more and more this process began to be introduced also in the food industry, where this type of production accounts 19.1% of total exports.

Even if the active processing system permitted the transformation of local producers with low financial potential in subcontractors of international companies, the great disadvantage is that economic agents cannot grow their businesses, because they do not have

the possibility to carry out similar productive activities on their own. Although the contribution of machine building industry in increasing the degree of complexity is notable, we can observe the predominance of components' production at the expense of designing and marketing our own brands. Moreover, from the macroeconomic point of view, this type of exports cannot cope with the increase in imports, which will lead to an increased trade deficit (Iancu, A., 2008).

The advantages for the Romanian economic agents offered by the practice of industrial activities by means of active processing are:

- Ensure jobs for approx. 500,000 workers in the industrial fields;
- Faster introduction of new technologies in industries where these activities are practiced;
- Staff qualification and professional training, particularly for the management staff;
- Growth in industrial education, changing mentalities on quality products and educating workers to make products for export;
- Facilitate the acquisition of know-how practiced by big international companies;
- Ensure the necessary conditions for Romanian companies in terms of quality standards;
- Increase competitiveness of industrial products and enlarge the market for Romanian exports and for the import of material resources.

The disadvantages of engaging in industrial activities based on active processing in Romania:

- The impossibility for Romanian economic agents to equally share the financial

results obtained from these activities, because they do not participate in the decision-making process regarding the prices of the imported material resources and finished goods;

- A low level for their workers' wages;
- A diminished possibility to promote on the internal and external market products with their own brand;
- The permanent risk of reduction in the number of jobs, because the price of labour in Romania is increasing and this type of activities may reorient towards other countries, with cheaper labour (Ukraine, the Russian Federation etc).

The present trends in practicing industrial activities based on active processing:

- The continuous transfer of production capacities from developed countries to developing ones, with cheaper labour force, due to rising prices for materials ;
- Development of processing activities in countries with competitive workforce;
- Increase in clothing and footwear imports for EU countries;
- EU imports of clothing and footwear in the next period will come mainly from China, Turkey, Romania, Poland, the Czech Republic and Hungary;
- The increase in costs with the workforce in Romania, which will lead to the transfer of industrial activities in other countries with cheaper labour costs;
- The increase in the number of companies that will produce for export using raw materials and accessories directly purchased by the company.

#### **4. Conclusions and implications**

1. Relocation of economic activities through outsourcing and offshoring is still

concentrated in the manufacturing sectors (although the service sector is also registering a growth in these activities) (Bauman, Z., 1999).

2. Having a rather limited character, there is no evidence that this phenomenon causes major problems at macroeconomic level, particularly in terms of trade imbalances; moreover, fear of industrialization in developing countries is also exaggerated.

3. The EU can benefit from the relocation of production abroad, ensuring competitiveness of European industry in manufacturing and services in accordance with their own comparative advantages.

4. In order to obtain benefits the EU has to be able to adjust and develop new areas of comparative advantage in sectors/fields which are technologically advanced in order to prevent the deindustrialization process that takes its place.

5. So, adjustment costs are likely to affect, in particular, certain sectors, regions and types of employees.

### **5. Acknowledgements**

#### *1. Relocation gains*

– The outsourcing and offshoring activities created a new division of labour, which could be beneficial for everyone – consumers and all parts involved (host country and country of origin);

– Through their decision to fragment and relocate their activities, companies will improve their own abilities to cope with international competition, increasing their share on world markets and creating new jobs ( Iancu, A. 2008);

– For the host countries the benefits will be, in particular, an increase in efficiency by

using resources transferring them from low value added activities to high value added activities, as production moves to high quality segments from the horizontal sectors;

- On long term, increased foreign imports will be matched by increased exports.

### **II. Relocation losses:**

- Relocation, however, involves a process of adjusting the industrial structure of each partner to meet the highest measure of their comparative advantages. Inevitable, some sectors are likely to develop (including employment), while other will decrease, reflecting the difference in comparative advantage;

- The fact that the phenomenon will lead to an increase, for all parties involved, of the value added tax, the fears that the EU will not be able to maintain its comparative advantage in a wide range of activities and will not succeed in halting the total relocation of industry is true.

### **III. Impact on employment:**

- Debates on relocation are fueled by concern that outsourcing/offshoring will permanently reduce the number of jobs (Bauman, Z., 1999);

- Relocation will increase the expansion of labour-intensive services sector increasing the overall impact on labour markets in developed economies;

- Relocation is not yet a large scale phenomenon if we take into account the general dynamic of the adjustments occurring in the national economies;

- EU experience of previous enlargements, also reveals that the negative impact of relocation on employment and wages, which generated fears, did not materialize

and is likely to be limited to certain sectors;

- Even if there is concern at macroeconomic level, relocation costs resulting from job losses and be strongly felt (at least on short term) in certain sectors and regions where these sectors are placed;

- Particularly at risk are those sectors most exposed to international competition and in which labour costs represent a large share of the total costs (Zaman, G., Geamane, M., 2006). For example, clothing and textiles, leather and footwear, shipbuilding and metallurgy are the ones who have the biggest losses in terms of jobs over the past two decades.

### **IV. Impact on incomes distribution:**

- Relocation may increase social inequality, which affects employment in different ways with different levels of qualification;

- Despite recent growth in the relocation of highly qualified professions, especially in services, the majority of relocations are affecting developed countries with impact on the low-skilled workers. This will increase the relative demand for skilled workers in developed economies, which determine the increase in the relative level of employment and/or in wages.

### **V. Political economy:**

- The great challenge that relocation represents for EU is the need to identify the political recommendations to better prepare the EU economies to capitalize the opportunities coming from this phenomenon in terms of promoting international competitiveness, while becoming able to strengthen its social institutions;

- The European Commission suggested that the priorities in creating economic

policies should meet these challenges, eliminating any protectionist approach with emphasis on promoting the factors supporting their own comparative advantages;

– It is necessary to take into account that differences in comparative advantages and

ability to move in new specialization area can affect the exposure degree of different member countries involved in the relocation;

– Authorities must intervene in order to provide assistance and social protection for workers and regions which are most affected.

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