

## ASPECTS REGARDING THE EVOLUTION OF THE FOREIGN DIRECT INVESTMENTS IN ROMANIA BETWEEN 1990 -2007

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### **Abstract:**

*Foreign direct investments (FDI) are the engine of the economic development in the developing countries, but also in the high developed ones. FDI played an important role in the Central and East -European countries integration in the world economy; these former communist countries had non efficient economies, and at the beginning of the transition they did not had the physical and financial capital, necessary for the reorganization and economic growth. The FDI distribution in these countries was not equal, and their impact for some of these economies quite low. Romania registered low values until 2003, because of the slow rhythm reforms and economic and political instability. The business environment, the incentives, the economy stability led to a very high volume of FDI starting with 2004, tendency maintained after the E.U. accession of Romania.*

**Key words:** foreign direct investments, Romania, transition, development, European Union.

**JEL Classification:** F21, O16

### **1. INTRODUCTION**

After 1990 Romania faced a series of imbalances which accompanied and delayed the economical transformation processes. Although at the beginning of the transition, the former communist countries were in similar situations, their evolutions were quite different.

The transition stages were delayed in Romania compared to other former socialist countries from the center and east Europe. The economy was almost totally controlled by the state, with a hyper centralized leadership and without respecting the rationality criteria. The existence of some super dimensioned companies gave economy a high rigidity rate.

The reorganization took place slowly because of the low retechnologing capacity induced by a low investment rate. One of the causes was the relative low FDI volume, the one registered in Romania being between the lowest from the countries in transition.

### **2. THE STATUS OF THE BUSINESS ENVIRONMENT AND INVESTMENT CLIMATE IN ROMANIA IN THE CONTEXT OF E.U. ADHERING**

Once with the European Union integration, Romania must change its options, its mechanisms and development instruments (1). The resources control must be replaced with the qualitative development by capital and investments infusion based on competitiveness. The sectoral approach of the economic policies is replaced by a multisectoral integrated approach of the development objectives.

The policies in the field of business and investment environment had among their objectives the investments stimulation. *The investments attraction policy* was an important part of the economic development policy, as well as the credibility and the trust in the business environment support. The goal of *the policy regarding the business environment* is the creation of a functional market economy by sustaining the private entrepreneurs and the free initiative stimulation.

In the E.U. accession process, Romania received the assistance of the international financial institutions and of the monitoring and post-accession evaluation mechanisms of the E.U. The commercial and cooperation links with the West -European countries have also increased.

Romania had an ascending trend of the macro economic performances, especially between 2003-2006, fact emerged by (2):

- The solid GDP increase rate (over the average 5,9% between 2003 -2005), thanks to a high volume of investments and private consumption;
- Decreasing inflation, unemployment and budgetary deficit and a quite low current account deficit (inflation of 4,87% in December 2006, compared to 8,6% in 2005, 9,3% in December 2004 and 14,1% in December 2003);
- Investments becoming the main factor of economic growth support beginning with 2005;

Among the advantages for the foreign investors that Romania has, we can mention: the economic and political environment stability, big market, qualified and relative cheap labor force, natural resources, the E.U. and NATO membership, functional market economy, small distance to the markets of Asia, Middle East, Balkans, bilateral agreements with other states concerning the mutual promotion and the protection of the investments.

### 3. THE EVOLUTION OF THE FDI FLUXES IN THE PERIOD 1990 -2007

*The foreign direct investments (FDI)* are defined as (3) investments which involves a long-term relation reflecting the interest and the long-term control of a economic unit belonging to a economy on other economic unit from another economy. FDI are made by the effective contribution of the capital owner, which participate at the design, achievement and exploitation of the objective in a certain proportion with a beneficiary firm from the host country.

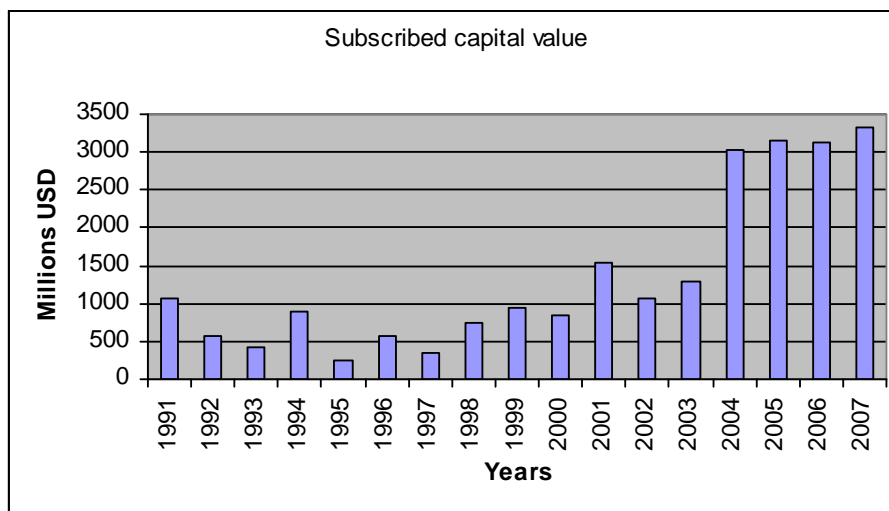
In Romania one can notice the increase of the FDI fluxes and progresses in the economic development, the two things having a connection. We expect that these FDI increases recorded in the context of Romania's integration in the E.U. to exist also in the medium term future, in the conditions of continuation of the market economy, institutions and law frame consolidation.

**Table no. 1. The number of the firms with foreign capital participation and the value of the social capital subscribed in the period 1990 -2007.**

Year	Number of firms		The value of the subscribed capital	
	No.	%	Thousands USD	%
1991	5.499	3,72	1.058.260,8	4,57
1992	11.765	7,97	573.271,2	2,47
1993	10.583	7,17	417.844,8	1,80
1994	11.053	7,49	881.673,3	3,80
1995	3.400	2,30	237.717,0	1,03
1996	3.630	2,46	573.594,2	2,48
1997	5.251	3,56	359.912,8	1,55
1998	8.801	5,96	755.475,3	3,26
1999	7.383	5,00	944.365,3	4,08
2000	8.567	5,80	839.143,8	3,62
2001	7.175	4,86	1.540.810,8	6,65
2002	7.518	5,09	1.078.746,2	4,66
2003	6.609	4,48	1.288.885,0	5,56
2004	10.167	6,89	3.032.218,4	13,09
2005	11.719	7,94	3.149.681,6	13,59
2006	12.823	8,68	3.127.314,6	13,50
2007	15.720	10,65	3.314.201,6	14,30
<b>Total</b>	<b>147.663</b>	<b>100,0</b>	<b>23.173.116,70</b>	<b>100,0</b>

Source: National Office of Commerce Register (ONRC), Firms with foreign participation at capital, statistical synthesis at 31 January 2008. [http://www.onrc.ro/statistici/is\\_decembrie\\_2008.pdf](http://www.onrc.ro/statistici/is_decembrie_2008.pdf)

The increase of Romania's attraction as destination country for the foreign investors have also been seen through the fact that in the period 2004 -2007, approximately 34% of the total firms with foreign participation at capital have been registered in the period 1991 -2007.



**Figure no. 1. The evolution of the social capital value subscribed at the firms with foreign participation in the period 1990-2007**

Source: elaborated using the data from the table no.1.

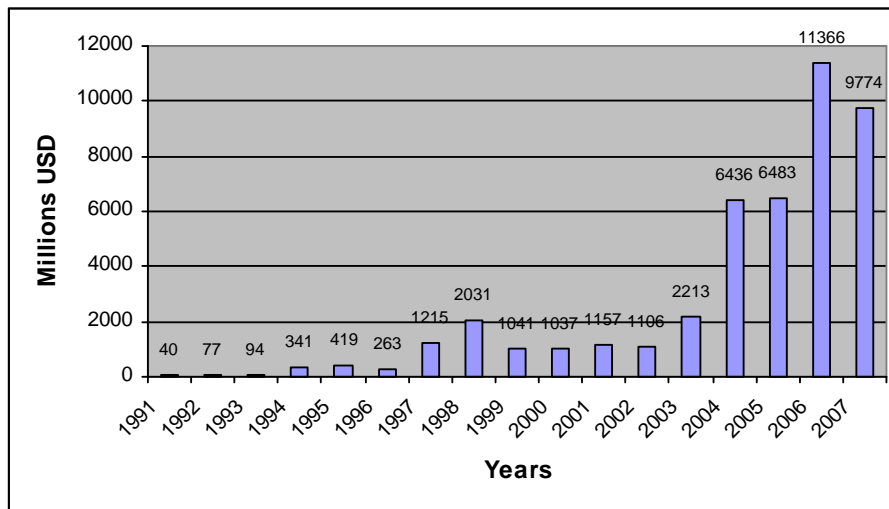
The evolution of the FDI fluxes (figure no.1) registered oscillations, the general tendency still being of increase, at number of firms, as well as from the subscribed capital value point of view. The highest values have been registered since 2004 and being approximately twice bigger than those registered in the former years.

The privatization of Petrom, Electrica Banat and Electrica Dobrogea contributed at the high value registered in 2004; International Finance Corporation and BERD have also taken 25% from the BCR shares.

A series of firms increased their social capital in 2004:

- Automobile Dacia increased its capital with over 218 millions Euro;
- Telemobil with 217 millions Euro;
- Rompetrol Financial Group with 73,6 millions Euro.

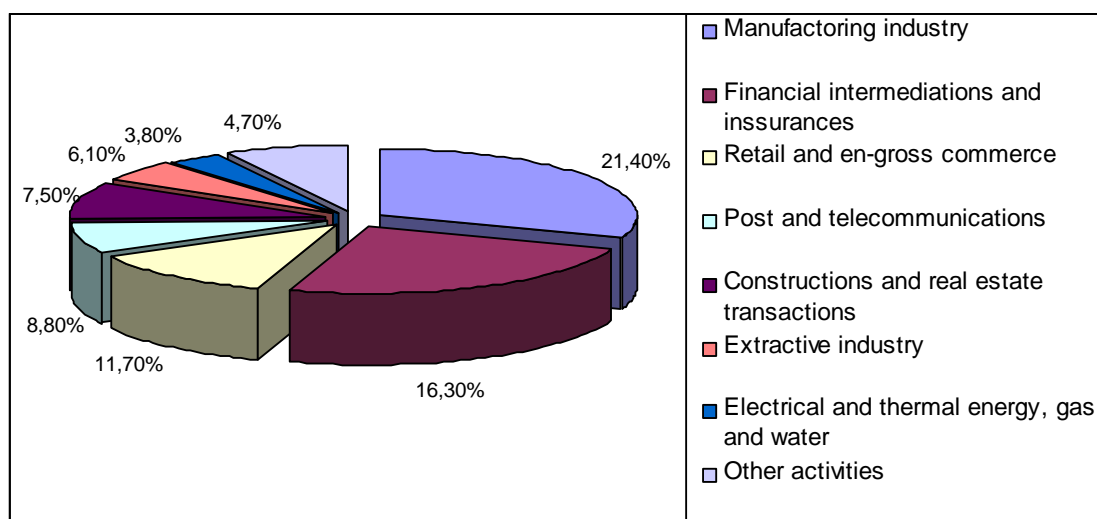
The highest value of FDI attracted by Romania have been registered in 2006 (11366 millions USD), as a result of the business environment improvement and flat tax introduction.



**Figure no. 2. The evolution of the foreign direct investments in Romania in the period 1991-2007**

The data source: UNCTAD ([www.unctad.org](http://www.unctad.org))

At the beginning of 2008, from the point of view of FDI sold, the manufacturing industry had the biggest share (30,5%), followed by the financial intermediations (24,5%) and the retail and en-gross commerce (12,3%) (figure no. 3).



**Figure no. 3. The repartition of the FDI sold on the main economic activities in Romania in 2008**

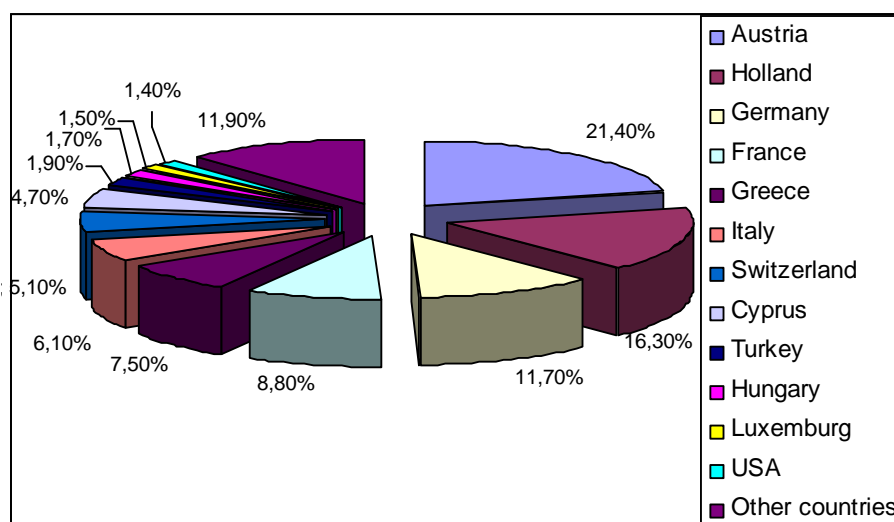
Source: BNR.

The first 5 countries ranked by the share in the FDI sold (4) at 31 December 2007 are: Austria (21,4 % compared with 23% in 2006), Holland (16,3% compared to 17,1% in 2006), Germany (11,7%, slow increase compared to 10,1% in 2006), France (8,8% compared 8% in 2006) and Greece (7,5%, which maintains its 2006 share).

**Table no. 2. The rating of FDI by the origin country in the period 1991 -2007 (mill. euro)**

		Millions EURO	% from total
	<b>TOTAL, from which:</b>	<b>42770</b>	<b>100,0</b>
1	Austria	9161	21,4
2	Holland	6988	16,3
3	Germany	5020	11,7
4	France	3759	8,8
5	Greece	3192	7,5
6	Italy	2617	6,1
7	Switzerland	2191	5,1
8	Cyprus	2015	4,7
9	Turkey	822	1,9
10	Hungary	738	1,7
11	Luxemburg	633	1,5
12	United States of America	581	1,4
13	Other countries	5053	11,9

Source: Romanian Agency for Foreign Investments (ARIS), 2007



**Figure no. 4. The main investing countries in firms with foreign participation at capital from the point of view of the investments values between 1990 -2007**

(Source: graphic elaborated using the data from the table no. 2)

In the FDI origin countries rating, the first six countries are from E.U. (Austria, Holland, Germany, France, Greece and Italy), being the main investors in Romania with a cumulated percentage over 71% from the FDI total fluxes. Other consistent investments come from Switzerland and Cyprus.

#### **4. THE FOREIGN DIRECT INVESTMENTS IN ROMANIA AFTER THE E.U. ACCESSION AND PERSPECTIVES**

Romania managed to keep a high level of FDI, which did not decreased significantly after accession, the way it happened in Hungary after 2004. Our country had the most FDI from the South-East Europe, approximately a half of the total FDI for this region.

From the investments recorded in the seven countries from the subregion of the South -East Europe (5) in 2005, 51,3% were the FDI in Romania.

Romania recorded FDI of 9 billions Euro in 2006, with approximately 4 billions Euro more than in 2005.

The FDI recorded in Romania in 2007 (6) had a value of 7,076 billions Euro, that year bringing no high value privatizations. In 2006, without including the BCR privatization, the FDI would have reached the value of 6,900 billions Euro.

With this performance concerning the FDI value, Romania reached the first place in the South-East Europe and on the second place in the Central and East Europe after Poland (15,4 billions Euro) ahead countries with high values FDI tradition, such as Hungary and Czech Republic.

Concerning the 2008-2009 period, we consider that (7) Romania will keep its position in the South-East Europe. In the same time, the whole region is attractive for FDI because of the competitive cost of labor force and productivity increase.

The integration of Romania in the E.U. increases its attraction and brings real opportunities for sustainable economic growth. The productivity also increases because of the technology transfers, the structural funds for development and the increased competitive pressure from the European common market.

Considering that the privatizations in the Romanian economy are almost finalized, the investments that Romania will be able to attract as E.U. member are the Greenfield type (from zero) and the Brownfield investments (the acquisition of the firm and the replacement of the production line almost totally). A tendency usually occurred after accession is the increase of number and value of the cross border and/or international fusions and acquisitions.

The fields (8) where high values of FDI will lead to are the automobiles construction and components sector, construction materials, wood processing, pharmaceutical sector, consumer goods, electronics, as well as services (IT and telecommunications, banks and insurances). The retailing and real estate sectors, with a good evolution in the latest years, will still be attractive for the investors.

One can notice that the Romanian economy became stronger, and the integration of Romania in the E.U. brings elements of optimism are about to improve the forecasts about the economic future.

## 5. CONCLUSIONS

The foreign direct investments are the economical development engine, but also a way of economy connecting to the free market economic system, to the world capitalism, the developing countries and in the high developed ones acting in order to attract investors.

The Central and East Europe countries offered fiscal incentives and made privatizations, these facts leading to significant increases of the FDI fluxes.

At world level there is a globalization process concomitantly with the spectacular development of multinational firms, which have an important role in the field of investments.

FDI played an important role in the world economy integration of the Central and East Europe countries, which, at the beginning of the transition, did not have the physical and financial capital necessary for the restructuring and economic growth. The FDI distribution in these countries was not equal, and the impact for some of these economies was quite low.

The biggest FDI value stocks were attracted by Czech Republic, Hungary and Poland until 2001; the values recorded by Romania were low until 2003, because of the slow rhythm of reforms and of the economic and political instability, but since 2004 consistent investments have come into the country.

The business environment improvement, the effects of the flat tax introduction and the positive attitude of the foreign partners towards Romania lead to the attraction of a very high volume of FDI beginning with 2004, an outstanding value of 11.366 millions USD being recorded in 2006.

The E.U. accession with the advantage of a space with no internal borders membership and of the community unique market, maintained a high level of FDI, level that might decrease the following years because of the global economic crisis.

## ENDNOTES:

- (1) Camera de Comer ți Industrie a României (<http://www.ccir.ro/ccirweb/>)
- (2) Camera de Comer ți Industrie a României – Direc ția Strategie, Rela ții Inter-Institu ționale
- (3) Liviu Voinea, *Corpora țiile transna ționale și capitalismul global*, Ed. Polirom, 2007, p. 14
- (4) ARIS, Raport 2007
- (5) ARIS, Raport 2006
- (6) ARIS, Raport 2007, p.3
- (7) ARIS, Raport 2007, p.34
- (8) ARIS, Raport 2007, p.35

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