

FOREIGN DIRECT INVESTMENTS IN ROMANIA AFTER THE EU ADHESION

Lecturer PhD **Laura DIACONU (MAXIM)**
Al. I. Cuza University of Iasi, Romania
dlaura_es@yahoo.com

Abstract:

The aim of the present paper is to analyse the evolution of the foreign direct investments (FDI) attracted by Romania between 2007 and present, taking into consideration the fact that there were two main determinants during this period: Romania's adhesion to European Union and the economic and financial crisis. Considering these aspects, the main objectives of the paper are to identify the way in which the FDI evolved in the period immediately after EU adhesion, by the sectors of activity, and to determine the impact of the economic crisis on the FDI attracted by Romania. In order to achieve these objectives, we have collected, tabulated and interpreted the data included in various statistical reports and databases. The results show that the relatively low unit labour cost, fiscal facilities, geographical location, large internal market and the adhesion to the EU made Romania become one of the most attractive countries from the Central and Eastern Europe for the foreign investors. However, the economic and financial crisis influenced the country's development and, implicitly, the evolution of the foreign direct investments inflows, especially after 2009. Therefore, in Romania there was a negative trend of the FDI during the last three years, with slight signs of improvement in the end of 2011.

Key words: foreign direct investments, multinational firms, competitive advantages, EU adhesion, economic and financial crisis

JEL classification: F21, F23

INTRODUCTION

The transition from a centralized economy to the a market economy determined Romania to elaborate various policies in order to attract the foreign investors, especially due to the fact that investments are considered a key factor for surpassing the gap between developing and developed countries. The most important facilities given by the government to the foreign investors are various safeguards against the risk of nationalization, income tax exemptions for the foreign direct investments (FDI) in agriculture, in the exploitation of the natural resources or in industry, for a certain period of time after starting the activity. Besides these facilities, Romania also presents a number of other advantages in attracting the foreign direct investments, among which we can mention: its geographic position and the size of internal market; cheap and highly skilled labour force; rich natural resources and fertile land; the EU and NATO memberships; bilateral agreements signed by Romania with other countries concerning the promotion and reciprocal protection of investments; favourable tax policy, involving reduced fees for investments in certain sectors; improvement in the business climate, etc.

According to the specialized literature, foreign investors can be classified into three categories, depending on the benefits persuaded on the Romanian market (OECD, 2008):

- *Efficiency seekers*: those who are attracted in particular by the low cost of the production factors;
- *Market seekers*: investors which are particularly interested in the market size, the poor domestic demand and in the easy access to local resources;
- *Export oriented investors*: those investors attracted by the export facilities and by the advantageous geographical position.

At the beginning of the XXIst century, we see an increase in the number of the investors attracted by Romania, especially after 2004. However, the evolution of the foreign direct investment (FDI) was sinuous. In 2007, we notice that the FDI inflows totalled 7.25 billion euros, amount which situated Romania on the first place in South-East Europe and on the second one in Central

and Eastern Europe, after Poland. After the historical maximum value reached by these investments in 2008 - 9.496 billion euros, they have significantly declined in 2009, when the impact of the economic and financial crisis was strongly felt in Romania. Thus, in 2009, the number of the FDI decreased with 48% and their value with 60%, compared to 2008, fact that has generated a 44% reduction in the number of the new created jobs. However, in 2009, as well as in 2008, Romania was ranked on the second position, after Poland, according to the value of the FDI inflows. The downward trend of the investment flows has also continued during 2010 and at the beginning of 2011, only in the end of 2011 showing slight signs of growth in the context of some the economic measures implemented by the government. Nowadays, the importance of maintaining the upward trend of the attracted foreign investments is even greater as they largely contribute to the economic growth, stimulating in and enhancing the internal factors of development.

AIM, OBJECTIVES AND RESEARCH METHODOLOGY

In the present study we intend to analyse the evolution of the foreign direct investments between 2007 and present, by identifying their trend on two distinct time periods: 2007-2008 and 2009-present. This time period delimitation was necessary to achieve the established *objectives*:

- To identify the way in which the foreign investments have evolved in the period immediately after EU adhesion, by sectors of activity;
- To determine the impact of the economic crisis on the FDI attracted by Romania.

In order to reach up these objectives, we have collected, tabulated and interpreted the data included in various statistical reports, such as World Bank databases, Statistical Yearbooks of Romania, developed by National Institute of Statistics (NIS), World Investments Reports of UNCTAD, Annual Reports of Romania's National Bank (NBR), the results of various researches conducted by the Romanian Agency for Foreign Investments etc.

THE EVOLUTION OF THE FDI IN ROMANIA IN 2007-2008

After the EU adhesion, the positive trend of the foreign direct investments in Romania was increasingly evident. In 2007, they recorded a value of approximately 7,100 million euros, while in the first half of 2008, the FDI inflows have accumulated approximately 4.758 billion euros, the attracted investments' flow increasing with 2246 million euros, compared to the same period of the previous year (NIS, 2007).

According to a report conducted by the Romanian Agency for Foreign Investments, the FDI attracted by Romania in 2007 were structured as follows (Romanian Agency for Foreign Investments, 2007):

- *Other capitals* (loans granted by parent companies to the affiliated firms from Romania) that amounted 3.740 billion euros, representing 52.8% of the FDI;
- *Reinvested profits*, which totalled 2.368 billion euros, representing 33.5% of the whole amount of FDI;
- *Capital equities* that amounted 0.968 billion euros, meaning 13.7% of the total FDI.

This performance in attracting the FDI helped Romania to occupy the first position in the South East Europe and the 2nd place in Central and Eastern Europe, in 2007, after Poland (15.4 billion euros), surpassing countries with tradition in this area, such as Hungary and Czech Republic.

In terms of the structure by the activity fields of the value of the capital subscribed by trading companies with foreign capital, in 2007 we notice the foreign investors' preference especially for industry (49%) and professional services (30%), followed, at a considerable distance, by sectors such as trade (10%), transport (7%), construction (2%), agriculture (1%) and tourism (1%) (Romanian Agency for Foreign Investments, 2008).

The orientation of the foreign direct investments mainly towards the industrial sector can be explained through the advantages offered by Romania in this field, such as the low price of the land

compared to other countries from the region, the skilled cheap labour force, the production facilities and the tradition in this field.

We notice the fact that the investors were mainly focused on the Bucharest-Ilfov region, where we find the largest number of trading firms with foreign participation, from all the companies, and the largest share of the subscribed social capital (more than 50%). On the next places, but only in terms of the share of the trading companies with foreign capital, there are situated the West, North-West and Centre regions. This unequal geographical distribution is caused by the quality of the infrastructure and of the labour supply, the presence/absence of some important opportunities and by the stability of the markets.

In 2008, the value of the FDI attracted by Romania reached the historical maximum, totalling 9.496 billion euros (NBR, 2009). This value allowed the country to be ranked on second position among the states from Central and Eastern Europe, after Poland, in terms of the FDI inflows, exceeding even some countries that joined the EU earlier than Romania. Even in this year, the investments' distribution, by region and by sector of activity, was similar to 2007, the Bucharest-Ilfov region and, respectively, the industrial sector attracting most of the investors (see figure no. 1 and figure no. 2).

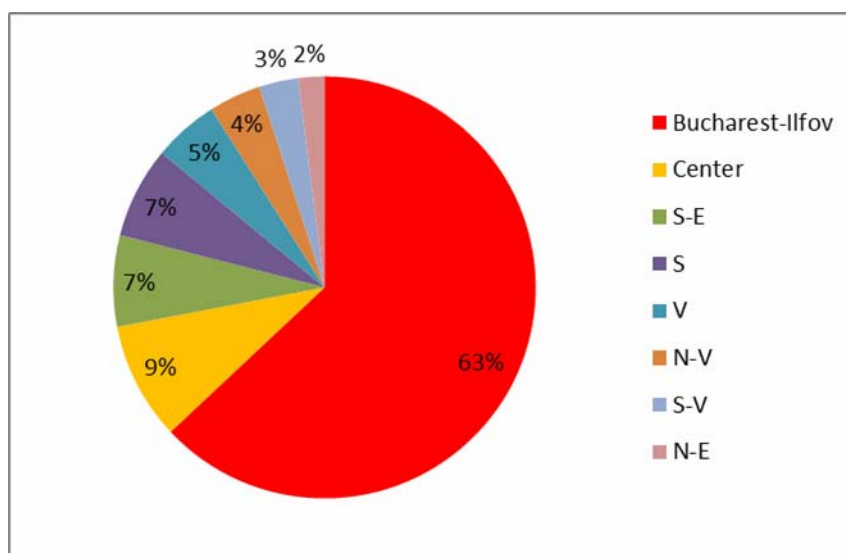


Figure 1. Geographical distribution of the Romania's FDI, by regions, in 2008 (in %)

Source: NBR, *FDI in Romania in 2008, 2009*, <http://bnro.ro/page.aspx?prid=4617#>

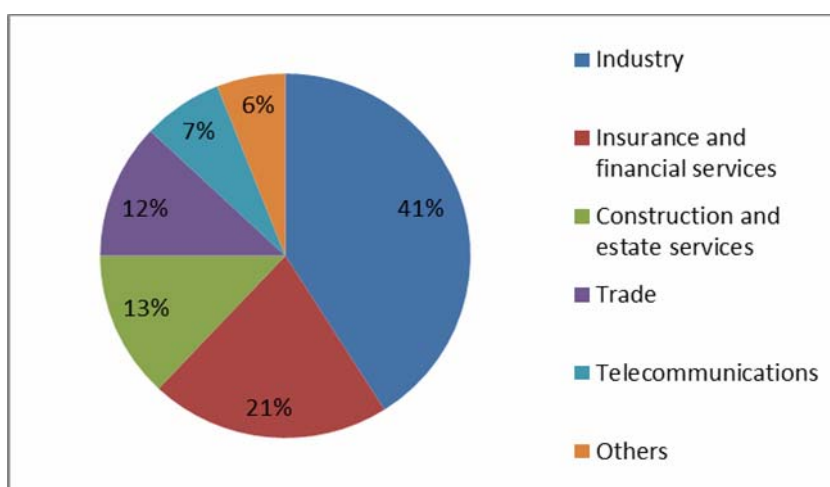


Figure 2. Distribution of FDI in Romania, by the main activity sectors, in 2008 (in %)

Source: NBR, *FDI in Romania in 2008, 2009*, <http://bnro.ro/page.aspx?prid=4617#>

THE TREND OF THE FDI INFLOWS IN ROMANIA BETWEEN 2009 AND 2012

The consequences of the economic and financial crisis started to be felt in Romania in 2009. As expected, the crisis has also affected the inflows of the foreign direct investments, in 2009 the number of FDI projects diminishing with almost 50% and their value with 60%. Consequently, the volume of the newly created jobs has decreased by 44% (Ernst & Young, 2009). According to a study conducted by Ernst and Young (2009), in 2009 Romania has attracted 75 foreign direct investment projects, representing 2% of the total projects in Europe, and generated only 6384 new jobs, while in 2008 there were created 11,403 new jobs through the 145 FDI projects. Considering these values, it is not surprising why, in 2009, Romania was occupying only the seventh position in an European ranking, from the point of view of the number of new created jobs.

Regarding the distribution of the foreign investments by sectors, in 2009 most of the FDI were attracted by industry - 41% of total (NIS, 2009). On the next place we can find the financial and insurance sector, followed by construction and real estate, commercial sector and telecommunications. Within the industry sector, the manufacturing industry represented the main hot-point for the investors (31.1% of the FDI).

In terms of the territorial distribution, it can be observed the same trend as in the previous years: the large majority (63%) of the foreign direct investments was in the Bucharest-Ilfov region, followed, at a large distance, by the central area (9%), the South-East part (7%), the South (7%), West (5%) and, on the last position, the North-Eastern region with only 2%. The graphical representation clearly points out an unbalanced geographical distribution, since more than half of the investments were concentrated in the Bucharest-Ilfov region. The low volume of FDI from the North-East region is caused by the fact that this area lacks material resources, skilled and young labour force (due to migration) and proper infrastructure for investors.

According to a study conducted by the National Bank of Romania (NBR, 2010), from the point of view of the origin country, we can notice that Netherlands has the largest percentage of the investments made in Romania (21.8%) in 2009, followed by Austria (18.1%), Germany (13.4%), France (8.5%) and Greece (6.6%).

The UNCTAD Report, released in the end of July 2010, indicates that Romania and the whole Europe were still influenced by the negative effects of the economic and financial crisis and by the financial markets' instability (UNCTAD, 2010).

In this context, in 2010, the FDI inflows in Romania dropped by more than 65%, reaching 2.2 billion euros, which represented less than one third of the level recorded two years before. To stop the downward trend and diminish the negative consequences, the Romanian government tried to revive the appetite for investments in 2010, offering state aids of 214.5 million euros. This measure had the desired effect, being attracted 10 investment projects with a value of 711.7 million euros, which led to the creation of over 4,700 new jobs in different fields, such as Pirelli tire factory, Renault Technology testing centre, the aerospace components factory - Premium Aerotec, Prod Aaylex agricultural complex etc.

Analysing the overall investment inflows throughout Central and Eastern Europe in 2010, we can notice that the Romania's performances in attracting FDI are higher than those recorded in most neighbouring countries, being doubled by the highest level of the exports from the whole post-communist history of Romania. Thus, the country has ranked the third in a top of the Central and Eastern European states, in 2010, Poland maintained its leading position, followed by the Czech Republic.

In a ranking developed by UNCTAD (2012), in terms of performance index of the countries in attracting FDI, calculated by dividing the percentage of the FDI that belongs to each state from the total investments by the share of its GDP in the global GDP, Romania was ranked on the 73 place from 141 countries analysed in 2010, occupying an inferior position compared both to 2008 (42nd place) and to the previous year (63rd position, in 2009). However, we consider that the calculation method of the performance indicator does not include all the factors that determine the attractiveness of a location for FDI. The GDP share in the world GDP does not include, for example, the taxation level of a country, the degree of corruption and bureaucracy. Therefore, we believe that applying this method for determining the performance indicator, we cannot accurately

identify the attractiveness of a country. For example, the developed countries have a high GDP and, consequently, the denominator's value of this performance indicator will be high, making the FDI performances to be neglected. Taking the case of Germany, we notice that even if it is the second largest destination for the FDI in the EU (46.1 billion dollars in 2010), according to the classification developed by UNCTAD it is ranked only on the 104 position. Another significant example is that of Great Britain: although it is the third EU country according to the level of the FDI received, it ranks on the 76 place considering the performance in attracting the investments.

In 2010, the countries that invested the most in Romania were Netherlands (27.03% of total investments), Austria (11.3%) and Germany (8.48%). According to the statistics of the National Bank of Romania and National Institute of Statistics, Netherlands has invested about 11,000 million euros in our country (NBR&NIS, 2011).

As it was expected, most of the FDI were directed to the Bucharest-Ilfov region (62.2%) and the least percentage was recorded, again, in the North-Eastern Romania.

In terms of investments' distribution by activity sectors, the greatest part of FDI was focused on the manufacturing industry (32%), where the best represented branches are the oil processing one, the chemicals, rubber and plastics branch (6.9% of total), the metallurgy (5.3%), the industry of transport means (4.9%), the food, beverages and tobacco's industry (3.9%) and cement, glass and ceramics industry (3.2%). The next place is occupied by the financial services and insurance, which amounted 19.1% of total FDI, followed by the retail trade, with 12.4% (see figure no. 3).

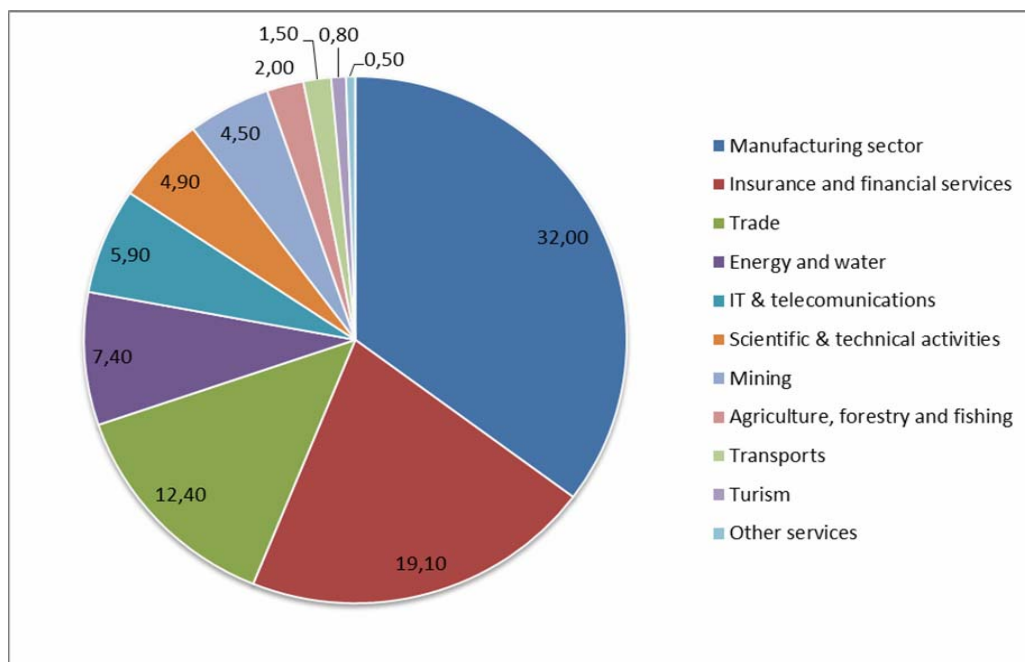


Figure 3. FDI's distribution in Romania, by sectors of activity, in 2010 (in %)

Source: NBR&NIS, *Foreign Direct Investments in Romania in 2010, 2011*, [http://www.bnr.ro/Investitiile-straine-directe-\(ISD\)-in-Romania-3174.aspx](http://www.bnr.ro/Investitiile-straine-directe-(ISD)-in-Romania-3174.aspx)

Because of the economic and financial crisis, the foreign direct investments continued to decline in 2011, reaching a level of 1917 million euros, with 13.6% lower than in the previous year. However, Romania was better situated than the neighbours from the South part of the Danube.

According to the statistics, the foreign direct investments showed a significant increase in February 2012, reaching a value of 230 million euros, much higher than in January, when the National Bank of Romania reported only 23 million euros (OECD, 2012).

The largest number of the foreign affiliates was held, in 2011, by the Italian companies, and the highest rate of turnover was carried out by the subsidiaries of German companies. The average turnover of a foreign subsidiary was 14.6 million RON and the gross added value was 2.9 million

RON. As it can be seen from figure no. 4, the highest number of foreign subsidiaries in 2011 was in the trade sector.

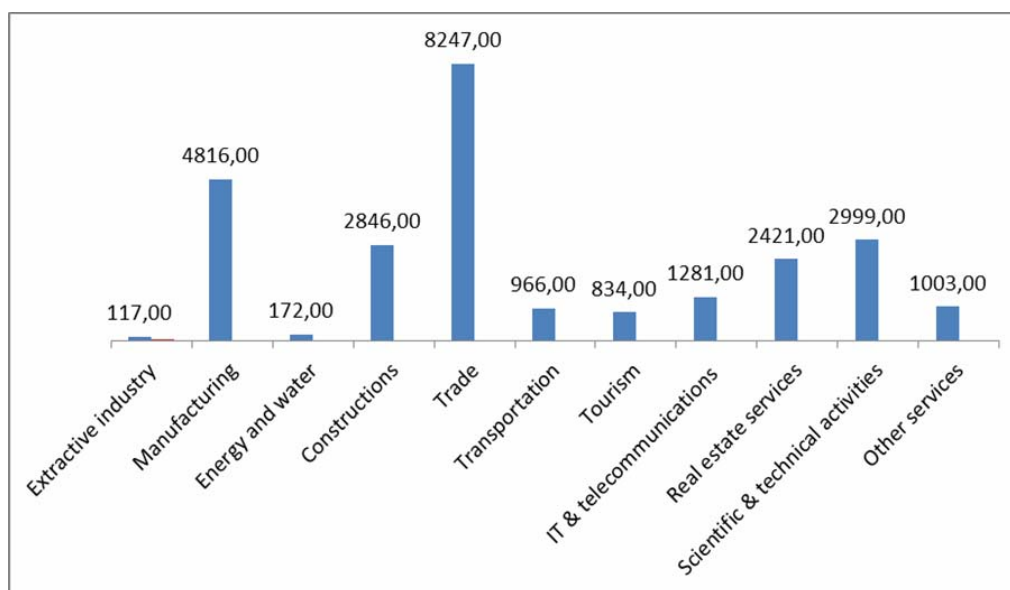


Figure 4. Number of the multinationals that invested in Romania in 2011, according to the activity sectors

Source: OECD, *FDI in Figures 2012*, OECD Database, 2012,

<http://www.oecd.org/industry/internationalinvestment/investmentstatisticsandanalysis/FDI%20in%20figures.pdf>

In 2011, from all the active companies from the Romanian economy, the foreign affiliates totalled 25,835, which represent a percentage of 5.3%. In terms of the share of these branches by activity sectors, we see that the highest percentage was in industry, while the lowest was in trade (4.2%). In industry, it was also recorded the highest rate of turnover: 44.4% of the total turnover of the foreign affiliates.

Depending on the distribution of the foreign affiliates by location, it is found that the share of those located in the EU Member States is 71.4% of the total number of the subsidiaries (18,446 companies), compared to 28.6% as it is the share of the subsidiaries from the countries outside EU. The 2011 turnover value of the multinationals that have invested in Romania, according to the country of origin, can be seen in figure no. 5.

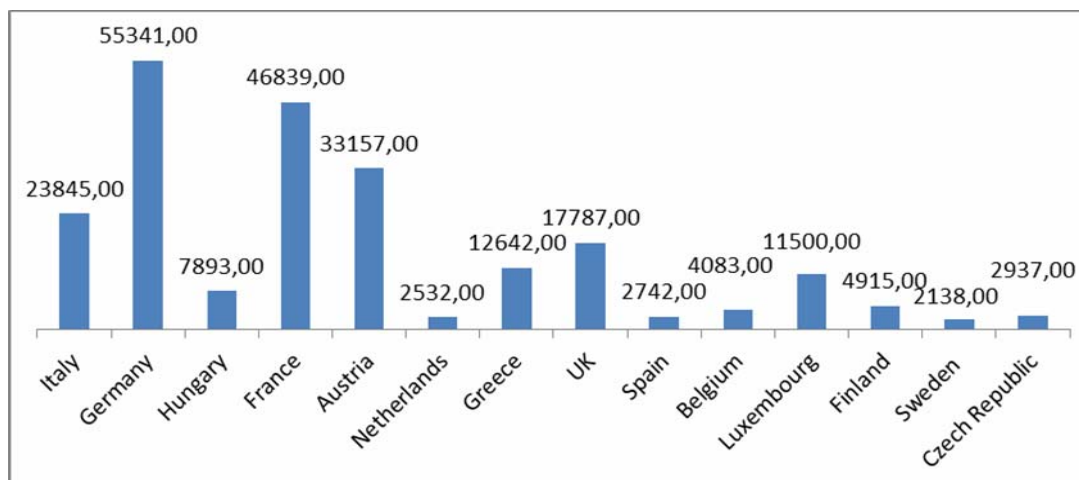


Figure 5. The 2011 turnover of the multinationals that invested in Romania, according to the main origin countries

Source: OECD, *FDI in Figures 2012*, OECD Database, 2012,

<http://www.oecd.org/industry/internationalinvestment/investmentstatisticsandanalysis/FDI%20in%20figures.pdf>

CONCLUSIONS

The Romania's adhesion to European Union, in 2007, made the country more attractive for the investors. Consequently, in 2008 the volume of the FDI has reached the maximum historical level. Unfortunately, this ascending evolution did not last for long due to the fact that the consequences of the economic and financial crisis were strongly felt after 2008, when the level of the FDI attracted by Romania has been gradually diminishing, each year. Only in the end of 2011 and beginning of 2012 there were felt slight signs of increase in the investments' level.

From the point of view of the main sectors towards which the FDI were directed after 2007, it is easy to observe that, by far, the industry was the main hot-field for the investors. Considering the geographical distribution of the FDI, we notice that, during all these years, the Bucharest-Ilfov region has attracted the majority of the investments, while the North-East part of the country had the smallest percentages. One of the main explanations for this situation is given by the quality of the infrastructure and the available labour force.

In our opinion, Romania will continue to be attractive for the foreign investors, since it has highly qualified labour force and the production costs are lower than in other EU countries. However, it is very likely that the disparities between regions, regarding the amount of the FDI attracted, to continue to be a delicate problem for the next years. The analysis of these aspects might represent an interesting topic for a future research.

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