

Elements Regarding the Presence of Foreign Direct Investments in Romania – Case Study

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Abstract

The study, briefly, presents aspects of the penetration of foreign capital in the Romanian economy, after 1990, and the impact on its development.

The case study analyses the trends recorded in the evolution of the flow of Foreign Direct Investments, in the Romanian economy, for a period of 11 years and, simultaneously, following this phenomenon, in other countries of Central and Eastern Europe.

The purpose of the paper was to capture the presence and evolution of Foreign Direct Investments in Romania, as well as the position of our country in relation to the trends of this phenomenon, registered in other countries.

The conclusions analyse the data movement of indicators, during the analysed period, the position and degree of attractiveness of Romania, as the case may be.

The method used was the documentation from the specialized literature, synthesis and processing of the relevant ideas and the statistical data analysis, in dynamics.

Key words: development, public-private partnership, foreign investments, stocks

J.E.L. classification: F21, H42, H54, L24; Y10

1. Introduction

The perception of the need for investment had an evolutionary process, from investments, whose purpose was the access to natural resources and the penetration on new markets, towards foreign direct investments, aiming at the production efficiency. (Trufin, 2016, p. 51).

The period that followed the Second World War was marked by an increase in international capital transfers and an expansion of the interest given to foreign direct investments, these being considered as a means of internationalizing business, motivated by the commercial relations between states (Trufin, 2016, p. 32).

As the production became internationalized, Foreign Direct Investments were oriented towards increasing competitiveness, at the end of the last century, the developed countries moving towards a new form, that of Foreign Direct Investments oriented towards the knowledge economy; it is the period marked by the expansion of Foreign Direct Investments, through multinational companies (Trufin, 2016, p. 51, 52).

2. Some aspects regarding Foreign Direct Investments in Romania

The Foreign Direct Investments are in the form of external capital resources, which are added to the internal capital, being an important support in carrying out the actions of development and modernization of the national economies; their approach and definitions are multiple and varied, depending on the objectives pursued and the role they have in the economic development (Bonciu, 2009 quoted in Trufin, 2016, pag. 28).

In Romania, art. 2, lit. a) of Law 241/1998 for the approval of GEO no. 92/1997, regarding the stimulation of Foreign Direct Investments (Legea nr. 241 din 14 decembrie 1998 pentru aprobarea Ordonanței de urgență a Guvernului nr. 92/1997 privind stimularea investițiilor directe, articolul 2, litera a), Monitorul Oficial nr. 483/16 decembrie 1998), shows that Foreign Direct Investments can

be emphasized in "participating in the establishment or expansion of an enterprise in any of the legal forms provided by law, the acquisition of shares or social parts of a commercial company, with the exception of portfolio investments, or the establishment and extension of a branch, in Romania, by a foreign trading company".

In order for an investment to be considered a Foreign Direct Investment, the foreign investor must have a share in the companies in which he has invested, between 10% and 25%; as a rule, the share held by investors exceeds 50%, which allows the control over the assets of the objective in which the investment was made (Moise, 2005, p. 21; Negrițoiu, 1996, p. 53, 54; FMI Balance of Payments Manual, ed. a 5-a, 1993 quoted in Prelipceanu, 2006, p.17).

In Romania, the presence of foreign direct investments, as an element of influence of the economic development, developed, both during the interwar period as well as after the Second World War, the conditions of manifestation and their role, being different, depending on the historical, political and economic context.

After 1990, the restructuring of the economy meant the integration of the risk generated by internal factors, as well as the risk generated by the implications of the world economy on the Romanian economy (Popescu and Ciucur, 1995).

The penetration of the private capital through investments in various fields has materialized in partnership forms, by developing some capacities or achieving new investments, concessions to private, foreign, but also domestic investors. The transfer of public capital to the private one, as a rule, led to the private investor's holding of the majority stake, this taking over the control of the company's activity (Popescu and Ciucur, 1995; Prelipceanu, 2006).

The interest of foreign investors for the Romanian economy is due to some advantages that it offers (Moise, 2005, p. 71):

- an attractive domestic market for investors, with opportunities of capitalization on certain segments of the economy (industry, trade);
- potential for access to export markets, Romania having relations with European markets;
- labour force resources having the capacity to increase the level of qualification and competitiveness.

The assessment of the impact of Foreign Direct Investments implemented through the public-private partnership, on the economy, take into consideration:

- *the quantitative contribution* - through the financial infusion of supplementing the internal investment resources having favorable consequences on the development of the economy and employment (Negrițoiu, 1996, p. 177);
- *the qualitative contribution* through the contribution made to overcome and regulate some distortions of the economy, as an effect of technology transfer, management and marketing expertise, increasing the level of training of the workforce;
- *the increase of the volume of investments domestically* in the form of direct and portfolio investments (Negrițoiu, 1996, p. 17; Moise, 2005, p. 69).

The penetration of foreign capital in the Romanian economy by the practice of the public-private partnership meant transfer of new, higher technologies, high performance equipments, transfer of experience and managerial training, contribution to the development of commercial services, the creation of new jobs and the increase of their qualification (Trufin, 2016, Șerbu, 2007, te Velde, 2006, Horobeț & Popovici, 2017).

3. Case Study. The evolution of some indicators regarding Foreign Direct Investments in Romania compared to some European countries

In the following, we analyse, briefly, the trends recorded in the evolution of foreign direct investments, present in the Romanian economy, for a period of 11 years (2008-2018). The analysis considers the observation of the data movement in some general indicators and tries to capture the moment of the outbreak of the economic crisis and the extent to which it has affected or not its evolution.

For the relevance of the conclusions on the situation of Romania, the analysis also followed, at the same time, the trends recorded in other countries of Central and Eastern Europe, to detect the differences that appear in the evolution of the flows of foreign direct investments, between these countries.

The data provided by the United Nations Conference on Trade and Development (UNCTAD), Eurostat, the National Institute of Statistics (NIS) (Institutul Național de Statistică), World Bank, World Data Atlas were used.

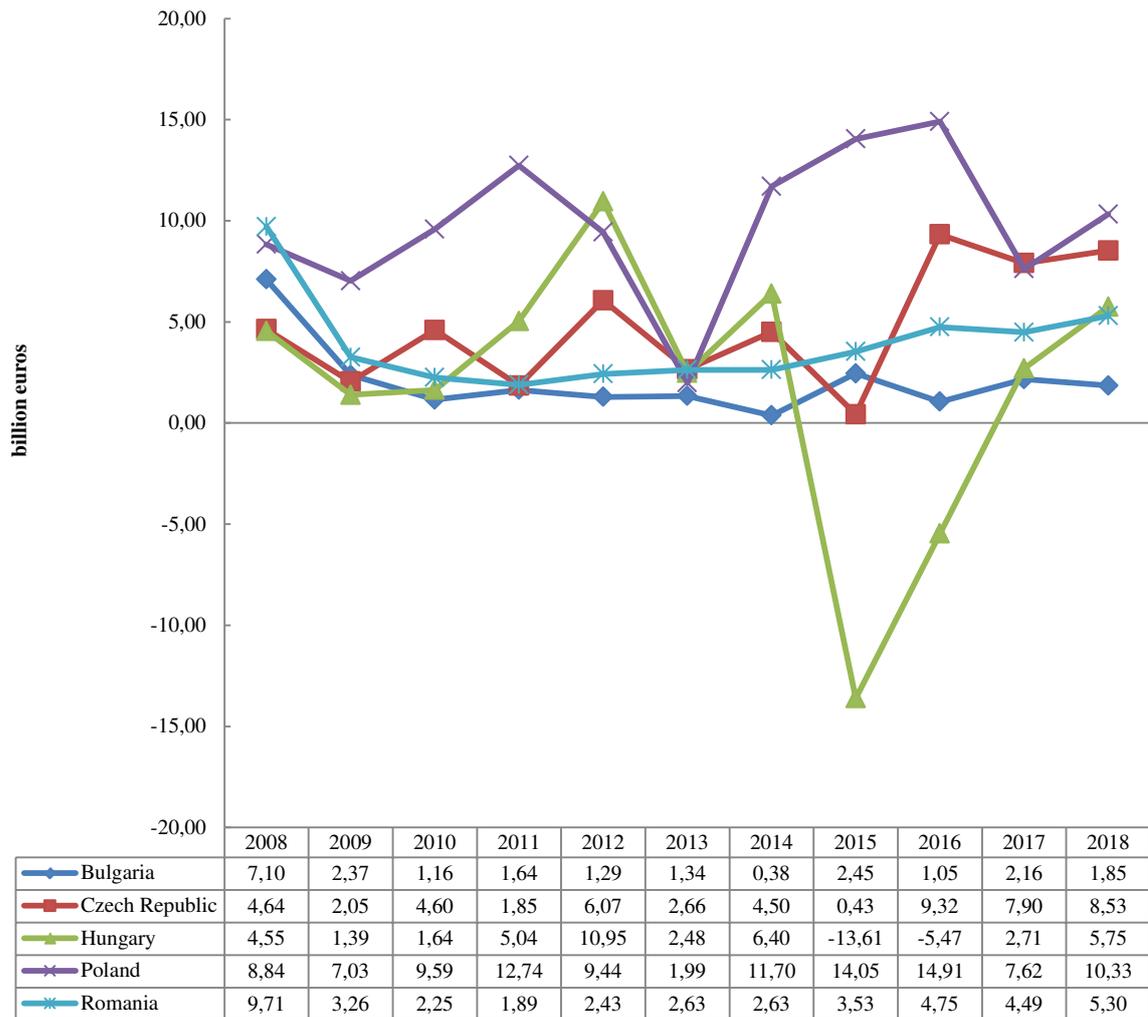
Note: Euro data was calculated based on the US Dollar - Euro exchange rate, presented on the website: Bank of England U.S. Dollar to Euro Spot Exchange Rates for 1975 to 2019, <https://www.poundsterlinglive.com/bank-of-england-spot/historical-spot-exchange-rates/usd/USD-to-EUR>

3.1. Evolution of the flows of Foreign Direct Investments

Following the trend of the flows of Foreign Direct Investments entered during the years 2008 -2018, we note (Figure no. 1):

- in each of the five economies, the year 2009 marks a decrease of the inflows of flows compared to the year 2008, in the context of the effects of the global financial crisis, also felt in this area;
- the oscillation of the volume of the financial flows by decreases or increases of them from year to year is noticed;
- in the year 2008, Romania registered the highest level of FDI flows compared to the other countries (9.71 billion euros), followed by Poland (8.84 billion euros);
- during 2009-2015, the level of flows in Romania was modest (the lowest, in 2011 - 1.9 billion euros) and, although, from 2015, their tendency was increasing, until the end of the period, the recorded fall was not recovered; in the year 2018, the inflow of Foreign Direct Investment inflows into Romania was 5.3 billion euros;
- among the five economies, Poland reached the highest performance, through the annual values recorded in the FDI inflows. In the 11 years analysed it was surpassed: by Romania, in 2008, Hungary, in 2012 and the Czech Republic, in 2017, but it proved to be the most attractive country in the area (9, 84 billion euros, average of the 11 years);
- in the case of Romania, the average level of FDI inflow attracted over 11 years is 3.9 billion euros, followed by Bulgaria - 2.07 billion euros. and on the last place is Hungary, 1.98 billion euros.

Figure no. 1 Evolution of the flows of foreign direct investments in the period 2008 -2018 (billion euros)



Source: Graphical representation based on UNCTAD, *World Investment Report: Annex Tables, FDI/MNE database* www.unctad.org/fdistatistics, Annex Table 1 FDI Inflows by Region and Economy 1990-2017, [https://unctad.org/en/Pages/DIAE/World% 20Investment% 20Report /Annex-Tables.aspx](https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx)

3.2. Evolution of Foreign Direct Investment stocks

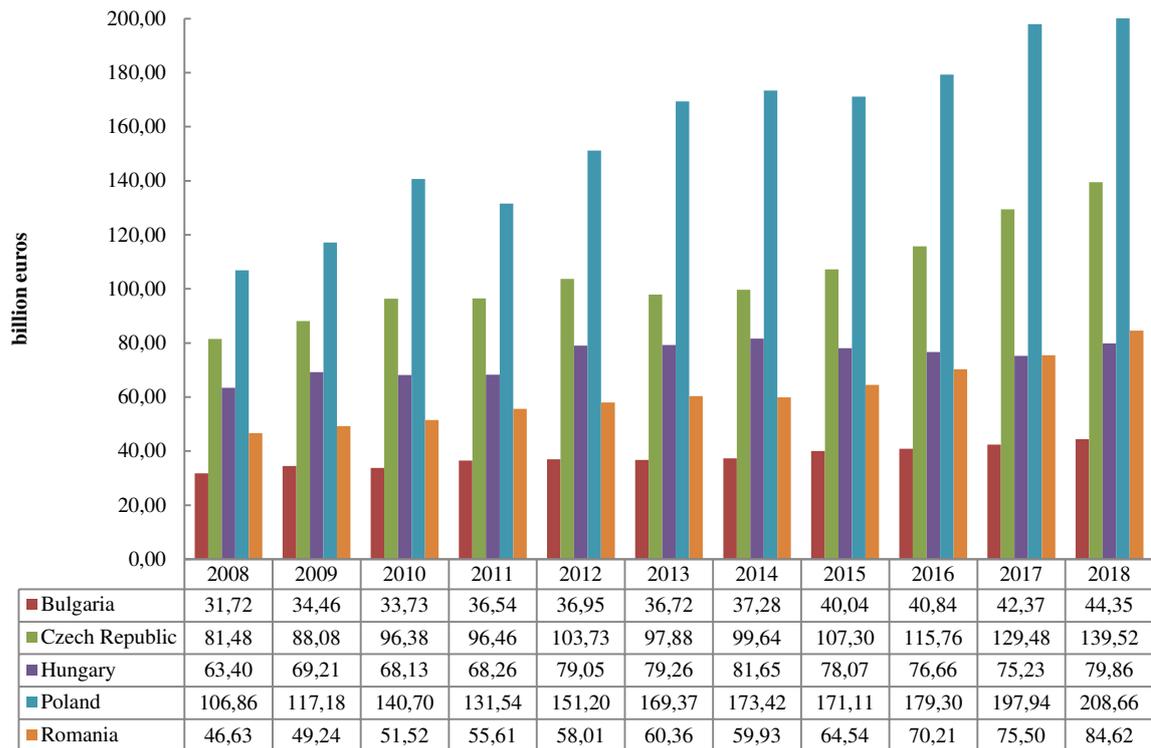
The analysis of the stock situation in the five ECE countries shows that during the whole period 2008-2018, there has been a constant increase in the volume of FDI stocks, with the existence of some significant differences from one country to another.

From this perspective, Poland was at the highest level of FDI stocks, in every year, and Bulgaria was in the last position. In relation to the average level of stocks, analysed over 11 years, the positioning of the five economies is as follows: Poland - 158.8 billion euros, Czech Republic - 105 billion euros, Hungary - 74.4 billion euros; Romania - 61.5 billion euros; Bulgaria - 37.7 billion euros.

In Romania, the level of Foreign Direct Investment stocks increased, annually, starting from 46.6 billion euros in 2008 and reaching 84.6 billion euros in 2018. In order of size, in 2018, among the five countries, it was on third place, after Poland and the Czech Republic. The lower attractiveness of Romania, for Foreign Direct Investment, as compared to other countries, was caused by delays in committing large privatizations and the slow pace of their deployment, Romania having a modest stock of Foreign Direct Investment in 2008, as mentioned above.

Graphically, the evolution of Foreign Direct Investment stocks in the five countries, during the commented period, is shown in the Figure no. 2.

Figure no. 2 Evolution of Foreign Direct Investment stocks in the period 2008-2018 (billion euros)



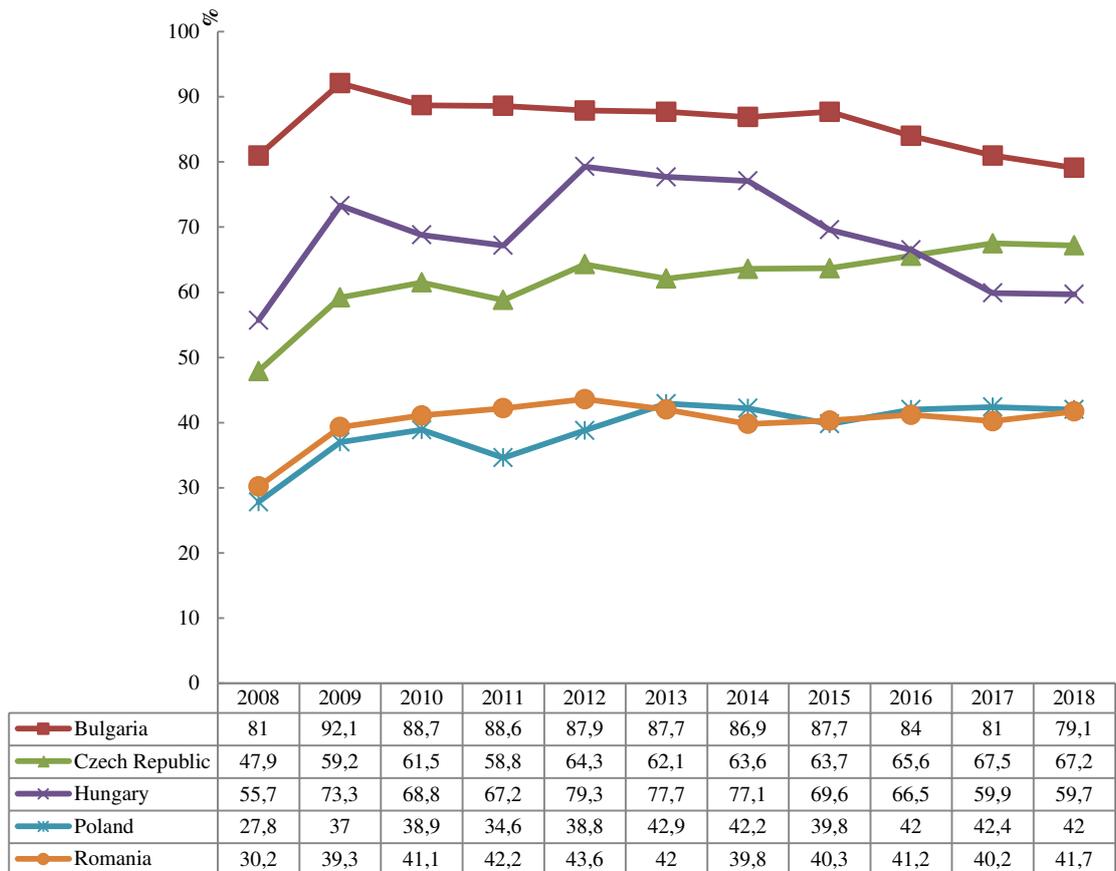
Source: Graphical representation based on UNCTAD, *World Investment Report: Annex Tables*, FDI/MNE database

www.unctad.org/fdistatistics; <https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> Annex, Table 3 FDI Inward Stock by Region and Economy, 1990 – 2018

3.3. Share of FDI stocks in GDP

Reported to Gross Domestic Product (GDP), the volume of Foreign Direct Investment stocks in Romania had a slow annual growth, until the year 2012 - 43.6%. After the year 2014, of which the share was of only 39.8%, compared to 42%, in 2013, the increases, in the other years, were insignificant; in 2018 the share was 41.7%. The relatively constant levels recorded in the years 2015-2018 were due to the variation of volume increases in both GDP and FDI stocks. In 2018, Romania had the lowest level of this indicator, compared to the other countries analysed, respectively, 41.7%. The highest level was held by Bulgaria - 79.1%, followed by the Czech Republic - 67.2%, Hungary - 59.7% and Poland - 42%. The representation of the level of Foreign Direct Investment share in GDP by countries is shown in the Figure no. 3.

Figure no. 3 The level of stocks reported to GDP in the period 2008-2018 (%)



Source: Graphical representation based on Eurostat, <https://ec.europa.eu/eurostat>;
INS, ASR 2013, <http://www.insse.ro/cms/ro/tags/anuarul-statistic-al-romaniei>;
World Data Atlas, https://knoema.com/atlas/country_profiles;
The World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=EU>
Data for EU 2008, World Bank national accounts data and OECD National Accounts data files;

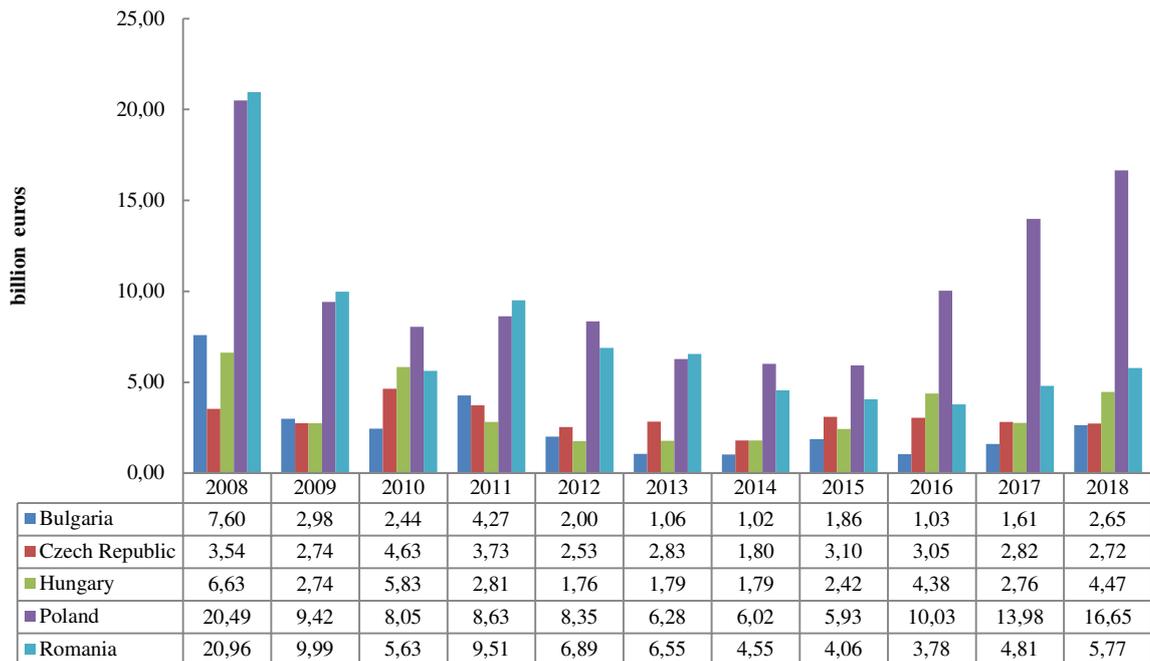
3.4. Evolution of greenfield projects

Greenfield projects, one of the categories of activities included in FDI and, at the same time, a form of contract in public-private partnership, represent medium and long term investments, advantageous for the host countries and a proof of the interest and confidence of the foreign investor (World Bank, *Baza de date PPI a Băncii Mondiale, Private Participation in Infrastructure PPI*, http://ppi.worldbank.org/ressources/ppi_methodology.aspx; <https://ppi.worldbank.org/en/ppi>; quoted in Mina-Raiu 2015, p. 47; Horobeț & Popovici 2017; Spînu 2017; Șerbu, 2007).

The data analysed show that for both Romania's case and of the other four countries, the value of these projects decreased in 2009 compared to 2008, with more than 50% (except for the Czech Republic), as an effect of the global economic crisis. It is mentioned that until 2018, in the case of these countries, the volume of investments achieved in this category remained below the level of that in the year 2008.

Among the countries observed, the countries that are remarkable to be the most interesting for investors, in this form of investment, are Romania and Poland, located at remarkable distances through the values employed, compared to the other three countries, as seen in the Figure no. 4.

Figure no. 4 Evolution of greenfield projects in 2008 - 2018 (billion euros)



Source: Graphical representation based on UNCTAD, *World Investment Report: Annex Tables, Annex Table 14*, www.unctad.org, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

4. Conclusions

From the analysis presented above, regarding the presence and evolution of foreign direct investments in Romania, during the last 11 years, we notice the following:

- In Romania, as in the case of the other countries analysed, the attraction of foreign direct investments was affected by the global financial crisis, the inflow of FDI inflows marking a significant value decrease, in the year 2009, compared to the level of 2008.
- Although in the following years, there was the tendency to increase with oscillations from one year to another, at the end of the period, respectively, the year 2018, the level of FDI inflows in Romania remained below that of 2008, but increasing compared to 2009.
- In the case of FDI stocks in Romania, as in the other four ECE countries, there has been a constant increase on them, throughout 2008-2009.
- Compared to the other ECE countries, Romania has a lower level of attractiveness for investors, ranking third or fourth, as the case may be, the highest level of performance having Poland; the exception appears in the case of greenfield projects in which Romania is in the second place, after Poland, the two countries, remarking with a high degree of attractiveness, in this category.

*

The approach of foreign direct investments relates to economic growth and development, to prosperity. Their contribution to growth, felt since the last century, has generated a new concept of the investment development process, whose starting point is the relationship between the degree of development of the receiving country (*GDP/capita*) and the net foreign investments (Trufin, 2016, p. xiii, 72; Moise, 2005; Negrițoiu, 1996).

It can be appreciated that the development of public-private partnerships with the contribution of Foreign Direct Investment, in the Romanian economy, has proved beneficial, existing favourable prospects of growth for medium and long-term. This implies further concerns, at the level of the government, as well as of the Romanian business environment, in order to ensure a stable and attractive economic and political climate, to the external investors (Bernardinetti, 2018; Wang, 2017; Ruwo and Makarudze, 2015; Singurel and Coman, 2017).

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