

Italian direct investments in Romania: a growing economic partnership

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Abstract

Foreign direct investment (FDI) remains a topic of continuous interest for any country, as it can ensure economic recovery during times of crisis by providing a reliable financial source. Italian FDI is of particular interest due to Italy's significant commercial presence in Romania.

Italian companies are active in virtually every sector, with a notable focus on manufacturing, agro-industry, energy, and high-tech.

The objective of this report is to highlight the context and impact of FDI on Romania from both economic and social perspectives, and to track the evolution of financial results and reporting practices of these companies.

The original contributions of this research are significant in the current context, as the topic of FDI is not sufficiently discussed, despite its numerous benefits for the local economy. By succinctly outlining the advantages of foreign investors' presence in Romania, current economic directions, and the reporting methods of Italian-capital companies, this report fills certain informational gaps previously existing on this subject.

Key words: foreign direct investment, Italian investments, commercial presence, investment growth
J.E.L. classification: F21

1. Introduction

Early in the 1990s, significant political and economic developments in Eastern European nations, particularly Romania, opened up new markets for FDI. Romania's competitive advantages, macroeconomic policies, and overall economic conditions all had a role in how FDI flows changed from 1989 till after the global financial crisis.

Italy has consistently been a valuable partner, both in terms of direct investments in our country and in the exchange of goods. Initially, in the early 1990s, investments were primarily concentrated in the western region. However, Italian firms now operate across the entire country.

Large investment corporations and industrial organizations have come to Romania with significant financial power in the last 30 years. Romania is the major importer of Italian goods, Italy, in addition to serving as one of Romania's primary trading partners, has an important position in the Romanian economy in terms of Foreign Direct Investment (FDI) (OECD, 2022).

At the end of 2022, there were 244,215 companies with foreign capital, with a capital value of 67.647.064,3 USD of which 51.794 representing companies with Italian capital (ONRC, 2022).

In this context, the paper examines the FDI conceptual framework, highlights the driving factors in attracting Italian FDI to Romania as well as it provides some pieces of evidence in regard to the profile and activity of Italian investors in Romania. The results of this study indicate that Italian FDI significantly stimulates long-term economic growth. Analyzing product exchanges reveals the most important categories of goods distributed by sector, showing a 14.4% variation in exports from Italy and a 30.9% variation in exports from Romania to Italy. (ICE, 2022). Also, analyzing the profile of the Italian investor, recommendations will be made regarding the actions that Romania must undertake in order to increase its attractiveness for investments.

2. Literature review

Foreign direct investment is characterized by an investment made in a host country's economic interests by a firm established in that state, either via the foundation of a new firm or the acquisition of a controlling stake in previously existing corporate assets.

To be considered foreign direct investment, the following conditions must be met: the direct investment entrepreneur controls facilities abroad the capital circulation is typically accompanied by additional resources, technological, knowledge, finance, or staff flows and the investment company has a long-term attraction in the host country.

Foreign existence in a financial system, whether through a collaboration agreement or through investment from other countries (FDI), has both beneficial and detrimental effects. The majority of the research has concentrated on the effect of inbound FDI, indicating that it promotes host-country growth: total production and development in a certain state improve as the percentage of the economic activity attributed to multinationals increases. (Moosa, 2002)

Factors that contribute to attracting Italian FDI in Romania. There are three basic motives for attracting FDI: expanding consumer markets (FDI in quest of markets), discovering less expensive factors used in manufacturing (FDI in trying to improve efficiency), or an aim of developing technologically (FDI in search of resources / strategically resources) (Negritoiu, 1996):

2.1 Economic resources

- One of the most prominent outlet marketplaces in Central and Eastern Europe, second only to Poland;
- Attractive geographical location, situated at the intersection of three major European Transport Routes;
- Advanced mobile telecommunications networks. Low-cost labor workforce with technical knowledge, information systems, and engineering;
- Oil, fossil fuels, coal minerals, extremely productive agricultural land that sustains active production throughout economic downturns;
- Climatic, soils, hydrology network, and tourism potential;
- Transport network: trans-European highway, Rhine-Main-Danube major railway;

2.2 Non-economic factors:

- Maintaining the state's unitary nature, despite attempts to dismantle it
- Political environment, which remains shaky;
- Romanian culture and human civilization, based on Western models; Latin origin, as France, Spain, Italy, and Portugal.
- The inclusion in the EU in 2007 is one of the most significant advantage

2.3 Legal component:

- Investors can use any form and type of investment;
- The possibility to invest in any sector and in any legal structure;
- Social equality - fair, non-discriminatory and equitable
- Assurances against public ownership
- The opportunity to benefit from fiscal and norms bonuses established by law;

The fields of activity that investors choose in Romania are very diverse, including: trade, administrative activities, construction, electricity, hotels and restaurants, public administration and education, transport, the extractive industry, real estate transactions, or agriculture.

Between 2009-2021, the average number of new registered companies was 5,917, and in 2022 there was a slight increase, the number of new companies reaching 7,368, with a total capital value of 1.695.620,1 USD (ONRC, 2022).

3. Research methodology

The research methodology employed in this article is primarily qualitative. It is based on content analysis of reports on FDI published on the websites of both Italian and Romanian institutions, aimed at establishing the investment relationship between the two countries. Preceded by the study of the specialized literature, the analysis of the data communicated regarding the investments in Romania

led to understanding the impact that the Italian investments had in Romania, the evolution of Italian direct investments in Romania and the profile and activity of Italian companies operating in our country.. Thus, ONRC (National Trade Register Office) data allowed me to identify the companies with Italian capital existing at the end of each year, for the period 2012-2022, BNR provides data on investment flows from Romania in 2022, whereas Trade & Investment Agency of Italy reveals exchanges of goods between Italy and Romania, observing the flow on each field of activity.

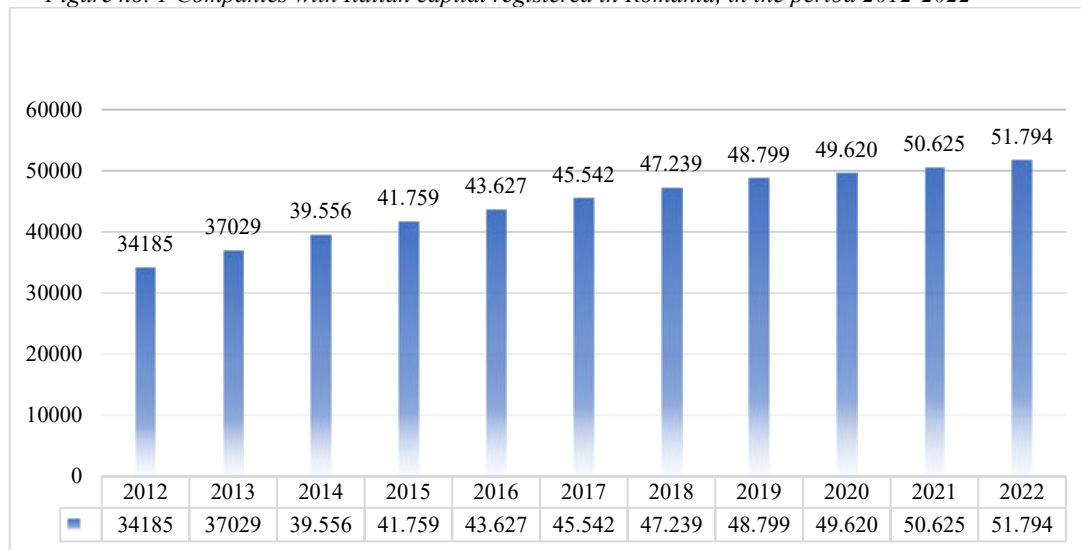
4. Findings

Italy has a significant commercial presence in Romania. While investments were concentrated in the west of the country in the early 1990s, Italian firms now operate throughout the country.

Italian firms are active in practically every sector, with a particular emphasis on manufacturing, agro-industry, energy, and high-tech.

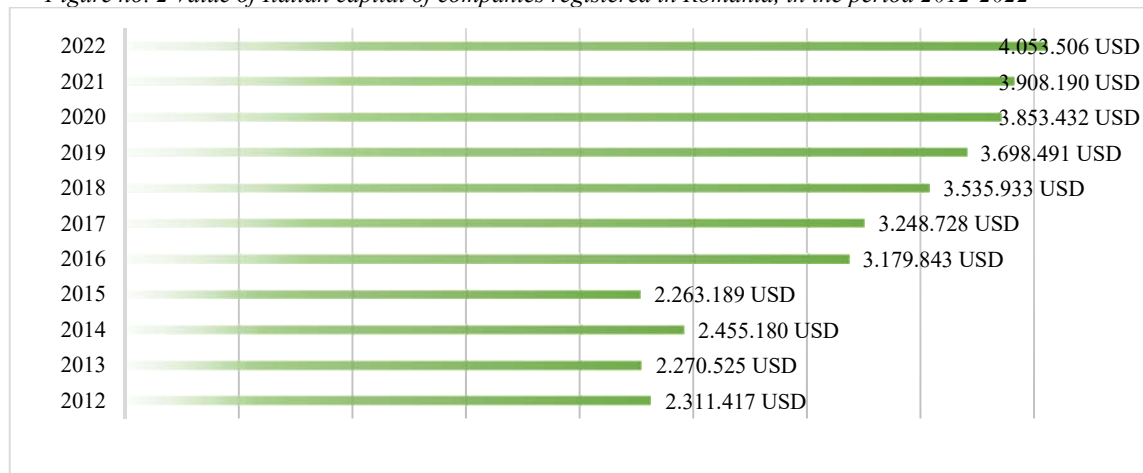
Over the years, the number of companies with Italian capital in Romania has consistently grown, with the recorded data as follows:

Figure no. 1 Companies with Italian capital registered in Romania, in the period 2012-2022



Source: National Trade Register Office (2022)

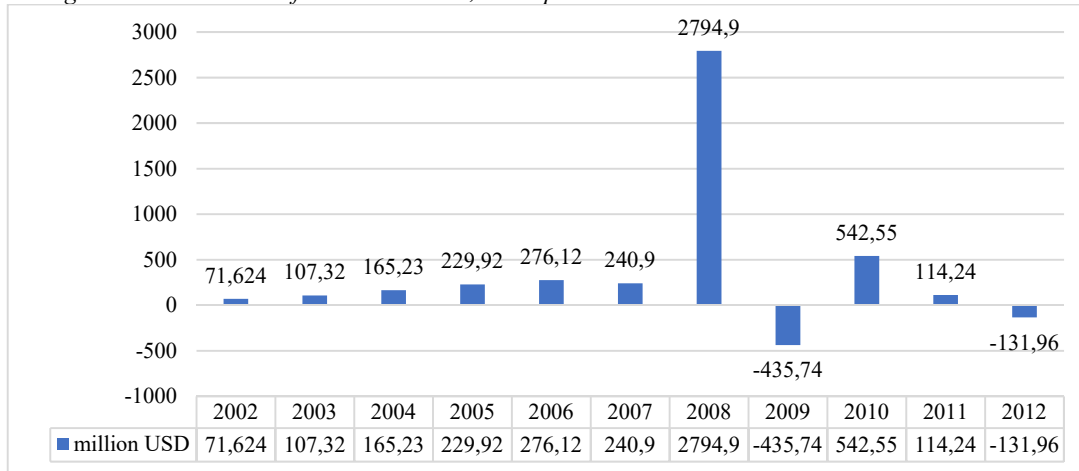
Figure no. 2 Value of Italian capital of companies registered in Romania, in the period 2012-2022



Source: National Trade Register Office (2022)

Regarding the evolution of FDI flows reported by Romania in relation to Italy, as presented in the table below, it indicates a good period between the years 1993-2007, knowing an upward trend, in 2008 registering the highest value of Italian investments in Romania in the amount of 2,794.63 million USD.

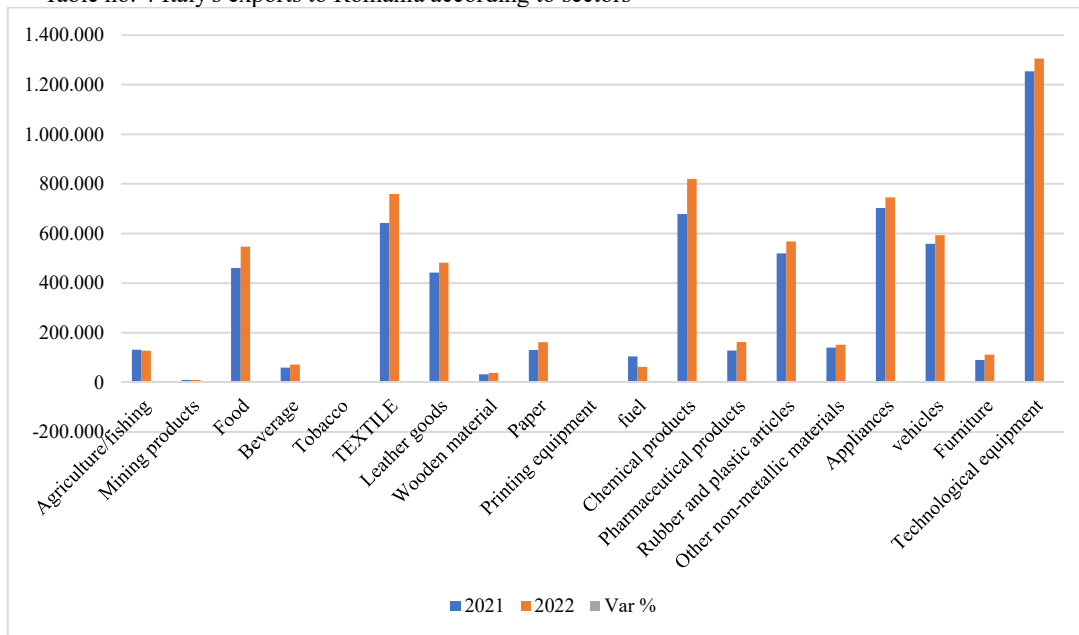
Figure no. 3 Italian FDI flows in Romania, in the period 2002-2012



Source: OECD

Inter trade between Italy and Romania by activity sector experienced a peak between 2021 and 2022, as follows:

Table no. 4 Italy's exports to Romania according to sectors



Source: compiled by ICE with data from ISTAT (2022)

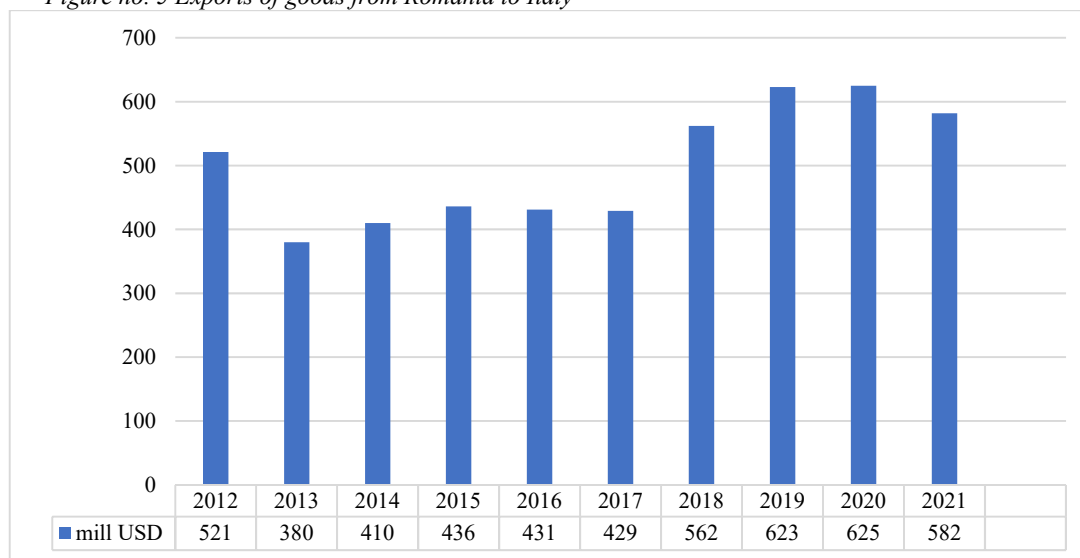
Table no. 1 Italy's exports to Romania according to sectors

	2021	2022	Var %
Agriculture/fishing	131.631	127.672	-3,00%
Mining products	9.636	9.806	1,80%
Food	461.204	547.168	18,60%
Beverage	59.271	71.932	21,40%
Tobacco	3.144	5.052	60,70%
Textiles	642.318	759.091	18,20%
Leather goods	442.640	482.846	9,10%
Wooden material	32.052	37.838	18,10%
Paper	130.026	161.471	24,20%
Printing equipment	524	454	-13,30%
fuel	104.288	62.385	-40,20%
Chemical products	678.545	820.795	21,00%
Pharmaceutical products	128.424	162.712	26,70%
Rubber and plastic articles	519.792	568.217	9,30%
Other non-metallic materials	139.510	152.112	9,00%
Appliances	703.013	745.553	6,10%
vehicles	558.488	593.839	6,30%
Furniture	90.185	111.616	23,80%
Technological equipment	1.253.731	1.305.347	4,10%

Source: compiled by ICE with data from ISTAT (2022)

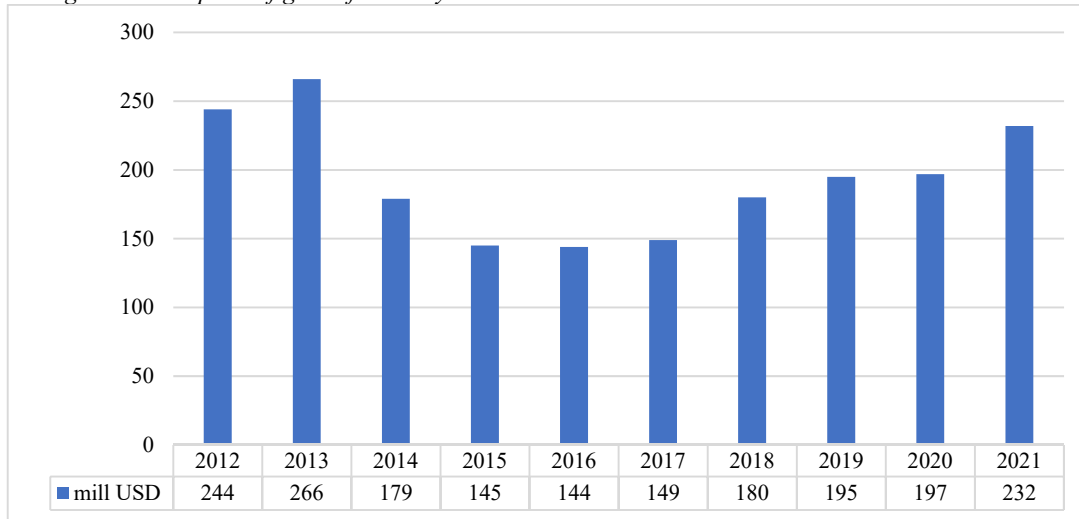
In continuation of the above, it is important to analyze the value of the bilateral exchange of goods between Italy and Romania. The data show that Romania exports more goods to Italy than it imports from them.

Figure no. 5 Exports of goods from Romania to Italy



Source: OECD 2012-2021

Figure no. 6 Imports of goods from Italy to Romania



Source: OECD 2012-2021

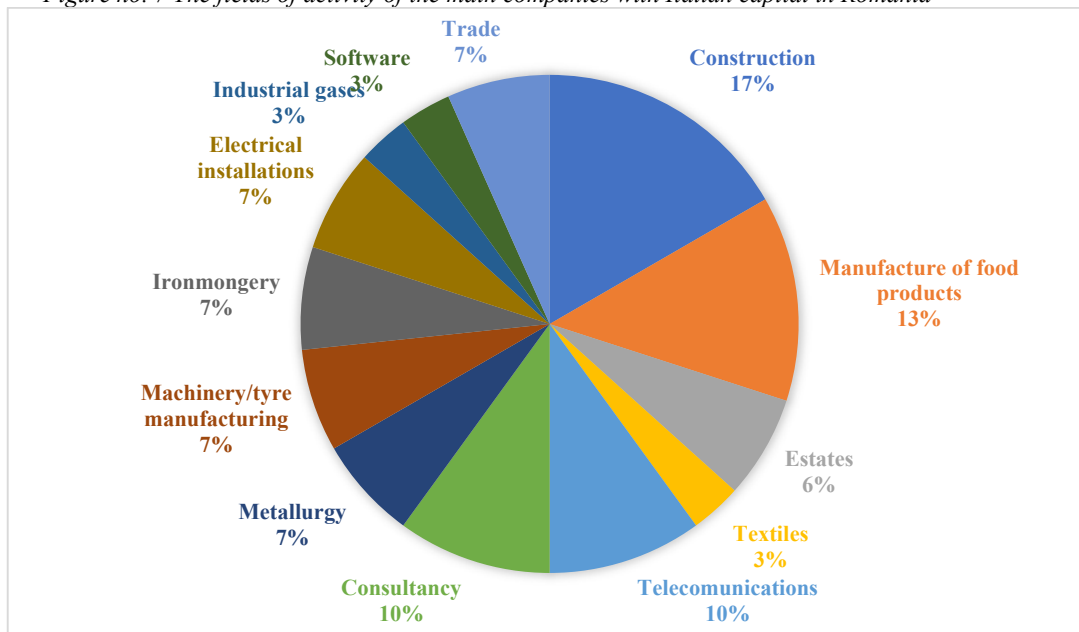
Analyzing the data above, we can conclude that Romania has more to gain from the exports of goods that it carries out to Italy, being among the main partners of this country, the value of exports being over the years almost double that of imports on which Romania makes from Italy.

The fields of activity that investors choose in Romania are very diverse, including: trade, administrative activities, construction, electricity, hotels and restaurants, public administration and education, transport, the extractive industry, real estate transactions, or agriculture.

Among those mentioned, there are some fields that most of the investors choose, here we are talking about trade - a field in which more than 25.68% of the total companies with foreign capital in Romania are active, followed by administrative activity with a weight of 23.8%, and in third place is the field of transport, registering 20.67% of the total number of companies.

The fields less chosen by investors are those such as agriculture/fishing - only 1.25%, financial intermediation and insurance with 1.46%, or the field of electricity and terminals, which only 2.71% of the total companies with foreign capital have as an object of activity.

Figure no. 7 The fields of activity of the main companies with Italian capital in Romania



Source: Ghidul.ro

5. Conclusions

From the sample of companies with Italian capital that I have selected, most of the companies are performing, obtaining very good financial results from one year to the next, being encouraged by the business environment in Romania to increase the level of investments, but it should be mentioned that 2 of them chose to close their businesses in our country for reasons independent of the determinants of investments in Romania.

Therefore, after analyzing the data and the main factors that influence the attraction of Italian investors, it can be concluded that Romania is an attractive country for investors, both from the perspective of economic resources, geographical location, workforce, and the legal framework.

Italian investments and the number of companies with Italian capital in Romania are steadily on the rise, thereby bolstering long-term economic growth. While Italian investors show interest across diverse sectors, there exists an imbalance. Hence, Romania should implement measures to enhance the appeal of less favored sectors, including prioritizing digitization, ensuring adequate infrastructure, and providing support for small and medium-sized enterprises.

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