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The evolution of the foreign direct investments in Romania

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Abstract

Last year, Romania ranked among first countries in the region as receiver of foreign direct investments and the positive signals from those who have a hard word to say regarding business community didn't delay to appear.

Prestigious international companies choose Romania, and today our country is already checked out on the international map of success locations as attractive destination for capital placements. You exist as a country, as destination in the business environment when you prove as country and to those from exterior when they look at you, that you can offer, you can assure the premises and the necessary frame for obtaining profit. 2007 proved not only that Romania exists as a country from the point of view of business destinations, but is situated on a much honorable position in front of the big international "players" which grants Romania today maybe the most valuable country rating: the respect.

The present policy of foreign direct investments in Romania was conceived for attracting foreign investors. Romania's economic potential is attractive through the internal market dimension (second market from Central Europe after Poland), through the high level of qualification of labor force, through the importance of existing resources and not in the last place through the proximity from the Occidental Europe countries, which represents the investment sources. The improvements of the business environment, the effects of introducing the unique quote of taxation and the positive attitude of foreign partners toward Romania conduced to the accented increasing of foreign direct investments in the last years.

Each foreign investment represents an investment in Romania, in the people of this country, in its capacity to become a credible partner for the international business environment representatives.

Investments are those which locate you on the map. It represents the barometer, the "health" of a nation.

Keywords: evolution, investments, business environment, competitiveness, risk.

Introduction

The foreign direct investments are defined as the direct or the indirect property of a foreign entity that owns at least 10% from the voting right shares of an enterprise. A foreign direct investment can mean an acquisition, a fusion, a new company, the extension of the company or absorption. This definition is considered the best, so it will be used when we decide to discuss about the foreign direct investments.

There are at least four characteristics that distinguish them directly from the investments' portfolio:

- 1 A fundamental aspect of the direct investments, as opposed to the portfolio investments is that the investor buys the power to exercise the control over the management of his investment, and for this very reason is not involving only the capital. This thing involves managerial and technical abilities or marketing knowledge. The power of the control will alternate as the shares go up and down in the respective company. The explanation of this fact stands in the fact that if an investor owns over 30% from the shares of a company and no other investor owns more than 10% it is possible that he can be able to exert his control although he is a minority, as he has not 51% from the shares of a company.
- 2 Another fundamental difference is the final target of the direct investor and that of the portfolio investor. The portfolio capital has the tendency of moving in some sectors from foreign countries that have an advantage over the respective internal sectors. This advantage will be reflected by a superior profit. This imposed fact is possible to happen with a direct investment in an industry in which the source country has the advantage, but this advantage can be transferred to a foreign country in its very usage.
- 3 The great majority of the portfolio investors are obtained by some natural persons or institutions, and not by artificial persons, by the companies. They have the tendency to invest in natural persons and in foreign institutions through the market's mechanism of foreign capital. In the case of the foreign direct investments is normal to be made by the companies. This can involve the acquisition of a whole company or only a part of this one, representing a change of property or, alternatively, it can refer to the construction of a whole new company abroad on horizontal or on the vertical, although these can still represent a geographical expression of this company. These can be the maximal reasons of the immediate profit. The result of the general analysis made by CERT confirmed this thing.
- 4 The foreign direct investments do not need a flow of capital from one country to another. The economists used to think to the direct investments like to an international movement of the capital that can have different forms, for example new shares, certain types of obligations, sales and buying of the shares and long period credit instruments. The only difference that the economists would accept was that the direct investments are accompanied by different degrees of control and movement of management and technology.
- 5 The foreign direct investments can play a crucial role in restructuring the Romanian economy on a supported increasing. The West companies by the introduction of the top technology and of the models of modern management at their subsidiary companies opened in Romania will put under pressure the Romanian companies that, in their turn, will be forced to make such kinds of improvements.

There are also other benefits that a foreign investment could bring, as for example:

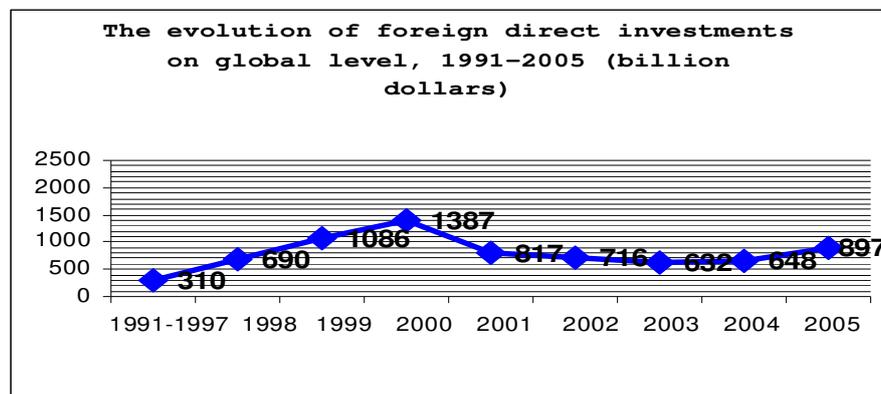
- the increasing of the production and of the quality of the products in accordance with the West standards.
- obtaining the necessary quantity for all the foreign and internal potential markets;
- creating new jobs;
- the access to new markets.

The multinational companies can use their already made links in order to export and import products from Romania and in Romania, increasing in this way the weight of the Romanian's economy in the world economy. On the other side the investments are the most volatile component of the Gross Domestic Product. When the export of goods and services passes through a period of crisis and this decline is usually the cause of a diminishing of the investments' expense. Less volatile than the national investments, the foreign direct investments answer to many more determinants than the domestic (national) investments.

The Foreign Direct Investments in World Economy

The foreign direct investments became an important component of the world economical circuit, registering increasing rhythms even bigger than those of the world trading from 1980's. They represent the greatest component of the flow of capital towards the least developed countries, registering small oscillations compared with the portfolio investments and the bank commercial credits. The greatest volume of the foreign direct investments at a gross level registered in 2000, respectively 1387 billions of dollars, after which followed 3 years of decline, in 2003 the gross flow of the foreign direct investments got to the value of 632,5 billions of dollars, situating approximately 50% from the top they got in 2002. 2004 represented a modest increasing of the total flow of the foreign direct investments with 2, because of the intensification of the foreign direct capital towards the least developed countries, the South -East of Europe and the Community of the independent countries. In 2005, the total flow of the foreign direct investments increased with 29%, because of the increase registered by the developed countries, especially by Great Britain.

Figure 1: "The evolution of foreign direct investments on global level, 1991-2005"

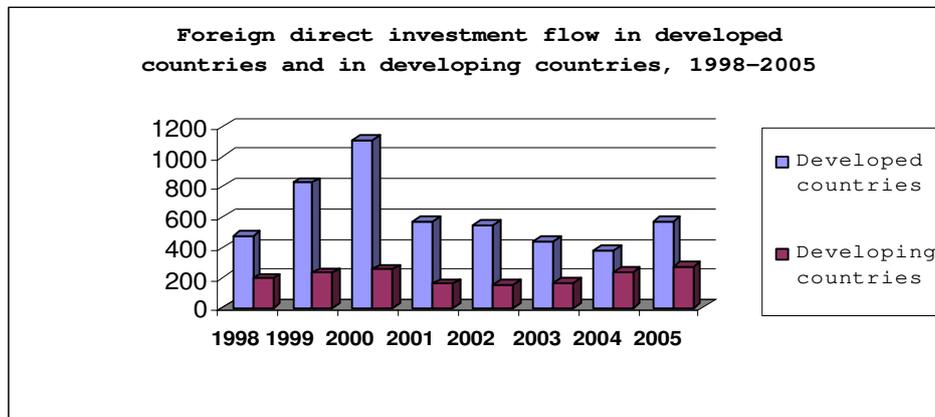


Source: made by the author based on the dates from WIR¹

In the last period, we can notice the reduction of the difference between the flow of the foreign direct investments attracted by the developed countries and the least developed countries, situation that can be explained by the fact that a big part of the least developed countries are in a period of increasing of the market and development of the human capital that lead to the increasing of the foreign direct investments, while the native investments abroad are yet to a reduced level.

¹ World Investment Report

Figure 2: Foreign direct investment flow in developed countries and in developing countries, 1998-2005

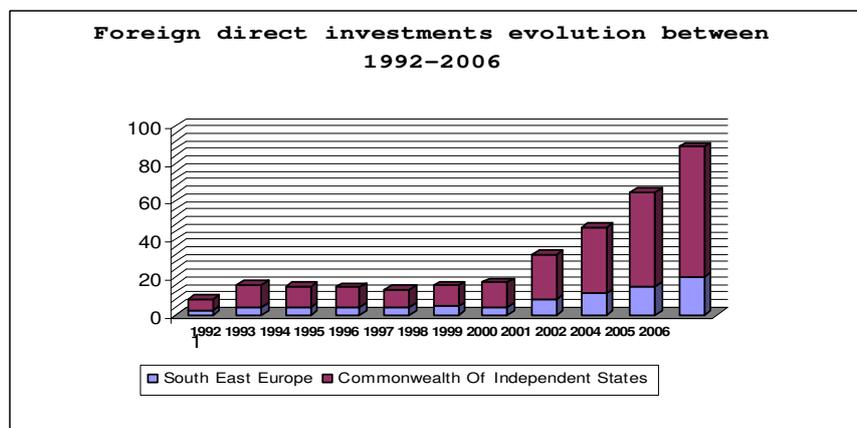


Source: made by the author based on the dates from WIR

The Foreign Direct Investments in the South-East of Europe and in the Community of the Independent States.

The flow of the foreign direct countries towards the countries of the South- East of Europe and of the Community of the Independent States registered an ascending trend in the last 6 years. More accentuated growths registered in 2004, 35 billions of dollars, in 2005- 50 billions of dollars and in 2006- 69 billions of dollars.

Figure 3: Foreign direct investments evolution between years 1992-2006



Source: made by the author based on the dates from WIR

Although the evolution of the attracted foreign direct investments is remarkable, there are some differences between the two regions, as a consequence to some different factors. In this way, in the countries of the South -East of Europe, the flow of the foreign direct investments started the ascending evolution in 2003; also because of the great processes of privatization until the end of 2004 they trebled as a value, getting to 11 billions of dollars. In the countries member of the Community of the Independent States, the flow of the attracted foreign direct capital increased since year 2000.

Foreign Direct Investments in Romania

Starting with 1990, Romania opened itself towards "the rest of the world". The relations with the European Union intensified the weight of the exports towards the member states of the European Union in Romania's total exports increased from 24.8% in 1996, and the weight of imports increased from 13.1% to 52.3% in the same period.

Between the period of 1990-1996, Romania registered a great number of foreign investors, over 50.000, but they were small investors, the majority being private persons. Consequently, as a value, the flow of foreign direct investments (FDI) during this period, was reduced. The big number of investors was due to the stable and attractive legislative environment. The privatization offers had been diminished and they did not include the public utilities or the banks, and because of this Romania did not manage to attract big investors too.

During the period 1997-2000, Romania confronted itself with an internal demand bigger than the internal offer of goods and services. Consequently, the application of a set of economical policies imposed itself; it regarded the reducing of the demand and the diminishing of the altering between the two parameters with a fundamental role in achieving the general macro economical balance. The modalities, by which the reducing of the internal demand was obtained, consisted of:

- the depreciation of the exchange rate in a closer rhythm of the inflation.
- the increase of the degree of physicality from 26.86% from the Gross Domestic Product (G.D.P.) in 1996, to 29.5% in 2000.
- The application of a tight-money policy, materialized in reducing the money supply with 19%, from which the governmental credit with 52%.

The most important positive effects of the economical development during the period 1997-2000 were:

- the reducing of the current account's deficit with 32%;
- the increase of exports with 28% and of imports with 14%;
- the reducing of the trade balance's deficit with 20%, respectively with 663 millions of dollars.
- the increase of the foreign direct investment attracted by Romania.

In the period 2001-2006, as a consequence of the economical policy's change, the economical growth's rhythm was of 5.8% yearly, compared with the economical fall of 2.5 yearly, registered in the period of 1997-2000. The economical policy's results in this period referred to:

- the macro economical stability, with a view to achieve the convergence with the member states of the European Union;
- the decrease of the inflation;
- the accelerated continuation of the structural reforms, respectively of privatization and the restructuring of the private sector, that became majoritary after a long period of time;
- the ending in broad lines of the reform in the financial domain;
- the improvement of Romania's access on the external market.

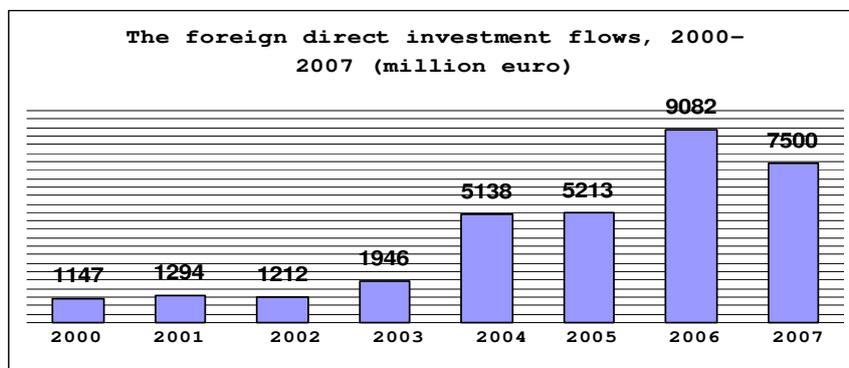
An important role in increasing the volume of the foreign investments oriented towards the development and the modernization of the national economy also had the import of equipment, the weight of the equipments obtained from the import in the total of the investments in equipments grew from 31% in 2000 to 58% in 2005. The way it results from the anterior specifications between the years 1990-2000, the flows of foreign direct investments (FDI) in Romania registered great oscillations.

Between years 1990-1993, the foreign direct investments were almost inexistent, remaining to a modest level until 1995. In 1995 a growth of the foreign direct investments flow registered, being attracted by Romania compared with the previous years, becoming 419 millions of dollars, unlike 341 millions of dollars in 1994, and 94 millions of dollars in 1993.

In 1997 the foreign direct investments grew 4.6 times, in 1998 with 80%, and, as a whole between the years 1997-2003 it registered a middle level of foreign direct investments of 1,403 billions of dollars. In 2004, the foreign direct investments attained the level of 5,183 billions of euro (about 6,426 billions of dollars), as a consequence of Petrom's privatization, and in 2005, the value of this was of 5,213 billions of euro (about 6,444 billions of dollars).

In 2006, the foreign direct investments attained the biggest value, starting with 1990. The record is a consequence of an addition of trust that Romania gains it by the stability and the predictability of the investitory climax, through the competitive tax policy, the reduced prices and the qualified work force, but also because it was near to gets into the European Union. The record value in 2006, 9,082 billions of euro, increased with 74.24% compared with the same period in 2005 (5,213 billions of euro), it includes the sum of 2.2 billions of euro, representing the takeover by Erste Bank of 36.8% from the shares of the Romanian Commercial Bank. The greatest weight in foreign direct investments attracted by Romania had "the participations to the capital" (4098 millions of euro), representing 45.1% from the total, then "other capitals", meaning loans arranged y the controlling company to Romania's affiliated structures (3029 millions of euro, meaning 33.3%from the total), and the "reinvested profit" component (1956 millions of euro, meaning 21.6%from the total).

Figure 4: Romania's annual flows of foreign direct investment, 2000-2007

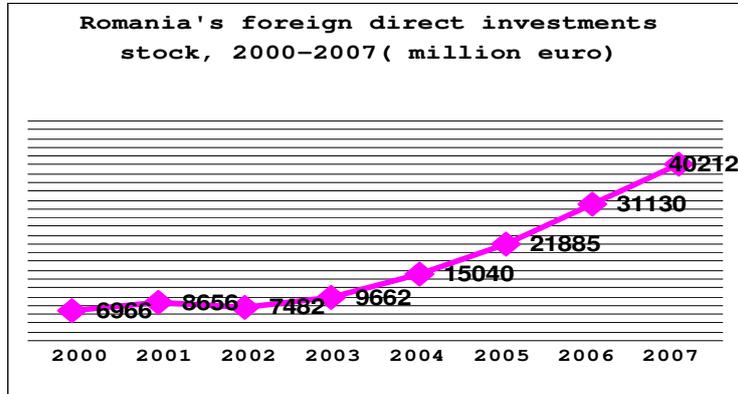


Source: made by the author based on the dates from NBR²

² National Bank of Romania

In 2006, the total volume of the foreign direct investments attracted by Romania overtook the point of 30 billions of euro, registering a stock of 31.13 billions of euro.

Figure 5: Romania's foreign direct investments stock, 2000-2007

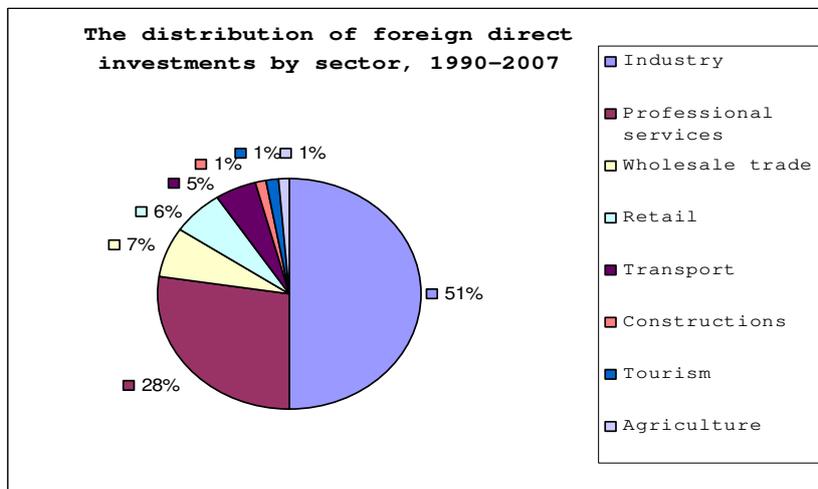


Source: made by the author based on the dates from NBR

The number of the business corporations with foreign participation increased with 9.2% in 2006, representing 9.1% from the total number of this kind of corporations registered in Romania between the years 1991-2006. The subscribed social capital by the business corporations with foreign capital sharing, newly registered, it followed the same ascending tendency of development, of 165.4%, meaning 238 millions of dollars in 2006, compared with 89.9 millions of dollars in 2005. As a weight it represents 15.7% from the balance of the value of the subscribed capital between 1991-2006.

The distribution of the fields of activity of the subscribed social capital of the corporations with foreign participation to the capital, between the years 1991-2007 is: industry 51%, professional services 28%, wholesome trade 7% and retail trading 6%, transports 5%, constructions 1%, tourism 1% and agriculture 1%.

Figure 6: The distribution of foreign direct investment by sector, in 1990-2007



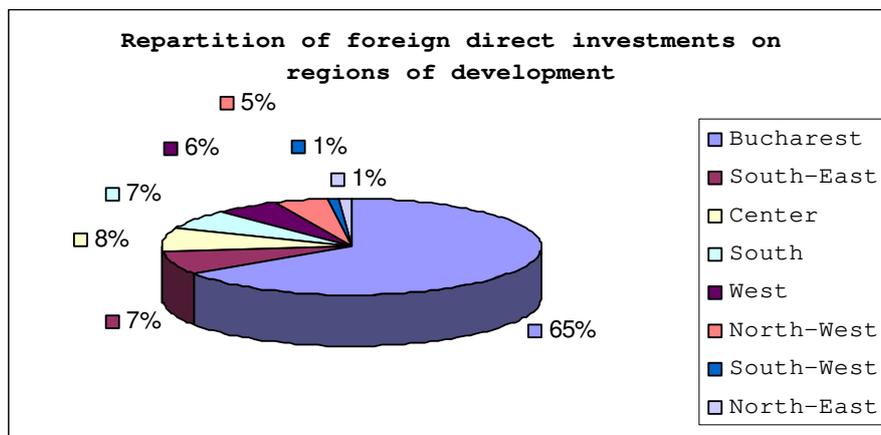
Source: made by the author based on the dates from NBR

In 2007, although there were dark previsions regarding the level of the foreign direct investments because of the lack of some major privatizations, as that of the Romanian Commercial Bank, these arrived to the estimated value. Apparently, in the first 11 months of 2007, the foreign direct investments diminished with 21%, to 6.5 billions of euro compared with a similar period of 2006, when they situated themselves to 8.3% billions of euro. But, if we do not take into consideration the income of 2.2% billions of euro obtained through the privatization of the Romanian Commercial Bank, this trade can be considered, as a matter of fact, out of the patterns because of its object, the level of the foreign direct investments in the first 11 months of 2006 diminishes to 6.1 billions of euro. In this way we can notice an increase with 7.5% of the foreign direct investments in 2007.

In 2008, the specialists estimate that the foreign direct investments will maintain themselves between 7.2 and 7.5 billions of euros as in 2007.

If we make reference to regional distribution of the foreign direct investments, we must notice that the capital and Ilfov district attracted until the end of last year over 64% from the total of the foreign direct investments in Romania, respectively 22,205 billions of euro.

Figure 7: Repartition of foreign direct investments on regions of development



Source: made by the author based on the dates from NBR³

The South-East Region includes Vrancea, Galati, Braila, Tulcea, Buzau and Constanta is on the following position with 2,653 billions of euro. Other development regions beneficiaries of important foreign direct investments are the Central Region, with investments of 2,559 billions of euro, the South Region -2,228 billions of euros and the West Region -1,948 billions of euros. The development Region North - West, with the districts Bihor, Bistrita -Nasaud, Cluj, Maramures, Satu-Mare and Salaj, beneficiated of the foreign direct investments with a value of 1,57 billions of euro, and the Region South-West Oltenia, with the districts Mehedinti, Gorj, Valcea, Olt and Dolj with 938 millions of euro. The lowest number of the foreign direct

³ National Bank of Romania

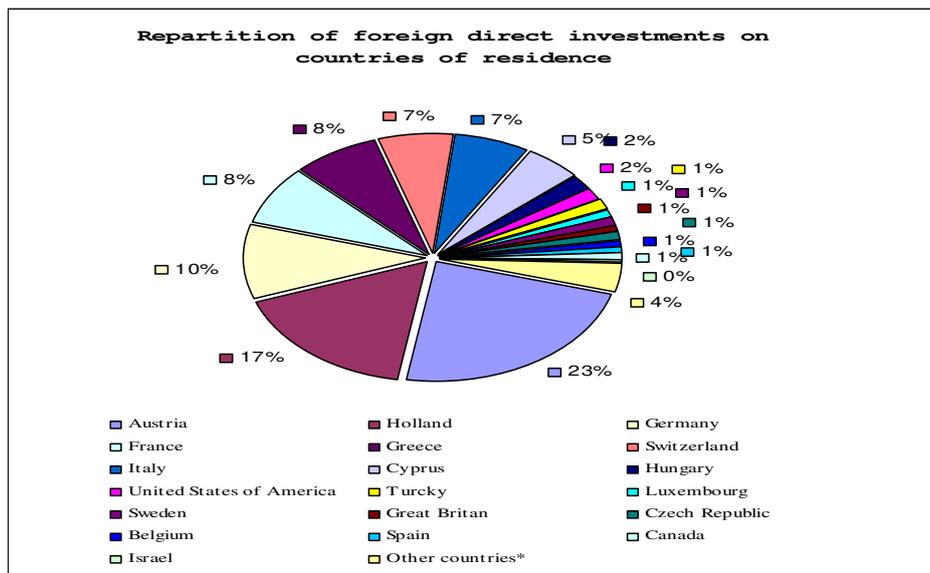
investments -411 millions of euro was attracted by the North -East Region with the districts Iasi, Neamt, Suceava, Bacau, Vaslui.

The Main Investors in Romania

Romania was the greatest receiver of the foreign direct investments from all the countries of the South-East of Europe, accumulating 38.4% from the total of the foreign capital attracted in this region between the years 1990-2007. Nevertheless, compared with the other Central, East, and South -East Europe countries, the foreign direct investments on the head of the inhabitant is diminished in Romania , the same is the foreign direct investments as a percent from the Gross Domestic Product.

In what concerns the classification on countries of residence of the foreign investors, between the period 1990-2007, on the first places it situates Holland with 2191,1 millions of euro, Austria with 1916,7 millions of euro, Germany with 1259.3 millions of euro, France with 1248.4 millions of euro and Italy with 766.7 millions of euro.

Figure 8: Repartition of foreign direct investments on countries of residence



Source: made by the author based on the dates from NBR4

The Foreign Direct Investments' Promotion Towards Export

Compared with the other countries in the region, Romania still has a competence level relatively low and a small level of the foreign direct investments on the head of the inhabitant. This competitive shifting can not be ignored because of the importance of the European unique market for Romania. As a consequence, the strategically priority of Romania must be the competitive advantages, the development of the capacity and that of the competence of the exporting field and the attraction of the foreign direct investments (all these representing a source of capital, of "Know-how", of technology, of leading abilities and of stimulation of the economical increase).

⁴ National Bank of Romania

In order to increase Romania's attraction as recipient country for foreign direct investments oriented towards the export, taking into consideration its integration into the European structures, we consider that, more than ever, some measures are to be taken:

- the correlation of the promoting activities of the foreign direct investments with the units and the targets of the national strategy of export, centering upon the attraction of the foreign direct investments in its main fields;
- the creation of a national system of marketing, centered upon the promotion of locations for the foreign direct investments on long term and delocalization in the main fields of the national strategy of export;
- the improvement of the business environment in the same time with the granting of some facilitations for the foreign investors in keeping with the rules of the state's aid and comparables with those given by member candidates countries of the European Union;
- the encouraging of the creation of bonds between the foreign investors and the local companies (the usage of the local suppliers in order to achieve the external needs of some activities by the foreign companies).

Conclusions

The analyses proved two main tendencies in the orientation of the foreign direct investments attracted the central and east European countries, mainly:

- 1 The foreign capital oriented especially towards the field of the services, mainly accentuating the activities of financial distribution, transport, storing and communications, marketing and services for business consultancy. In the field of the processing industry, the majority of the foreign investors oriented themselves towards the industry of the consumer goods and the car industry and the industry of the equipments of transport.
- 2 Although, mainly, foreign direct investments were directed mostly towards buying the state- owned enterprises during the process of privatization, during the years before the European integration it could be noticed a growing of the foreign investors' interest for the projects as "Greenfield", this fact proved their preoccupation for obtaining a better position on the regional market.

The analysis of the distribution on sectors and regions of the foreign direct investments attracted by Romania showed the powerful concentration of the foreign capital in those regions and districts of the country that beneficiate of a higher degree of development and a physical infrastructure comparatively more modern, as the preference of the foreign investors for some activities from the sector of the services (trade, financial services, communications, services performed for the companies) that attracted important investments as is the type "Greenfield", together with some traditional industrial activities (metallurgy, consumer goods, car industry, cement, chemical products, oil processing) characterized through the prevalent orientation of the foreign direct investments towards buying the state enterprises during the privatization process.

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