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Romania and Foreign Direct Investment

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Abstract

Thanks to a level of growth in foreign investment, the gap is narrowing between Romania and other East European countries like the Czech Republic, Poland and Hungary, countries normally considered the preferred choice of foreign investors. In the last years, Romania has become a more appealing target for an increasing number of foreign investors. After its accession in NATO in 2004 and in European Union in 2007, Romania positioned itself very firmly within the Euro - Atlantic zone, with all political, economical and military consequences deriving from it.

Keywords: foreign direct investment, economic growth, economic integration

JEL: F15, F21, F22

For a better integration within the international economy, the restructuring and reform process of the Romanian economy requires significant foreign investment flows driven by the increasingly global character of production processes. This aspect, together with the already global character of trade, requires a new approach to the identification and distribution of resources. For all countries, a component of the development strategies and an essential instrument in the development of a strong and dynamic private sector is to attract foreign direct investment (FDI).

The FDI facilitates the indirect access to foreign markets through the complementary effect of the related technology and know-how implementation. According to a survey by UNCTAD and data from national central banks, Romania has attracted most of the FDI in the South East Europe region. However, countries in Central Europe that have implemented faster reforms and have created earlier a stimulating investment climate, such as Czech Republic, Poland and Hungary, have absorbed about 80% of the total FDI in the wider CEE area.

Evolution of the foreign direct investment in Romania

The year 2006 was the sixth year of sustained economic growth, after a long period of hesitating transition towards the market economy. The GDP registered a significant growth of 7.7% in 2006, a better performance compared to the 4.1% growth in 2005. This positioned the country on a top place among EU countries in terms of economic performance. The inflation significantly decreased from 9.0% in 2005 to 6.6%

at the end of 2006, and the monetary policy of the National Bank will lead to reaching mid-single digit inflation rates by 2007 and 2008.

The economic growth was sustained, among others, by the increase in foreign direct investment. According to the statistics provided by the National Trade Registry Office, the total stock of FDI at the end of 2006 was USD 22.7 billion (EUR 17.4 billion).

Having in view that FDI in a country is facilitated, inter alia, by the development of the infrastructure, the efficiency of administration, and by an adequate legislative system, the International Financial Institutions are actively supporting Romania in its efforts to meet these criteria, and surpass the difficulties of the transition.

Romania is actively integrated into the European economical environment, as reflected by the distribution of FDI per countries of origin. The top ten countries' classification on foreign capital registered between December 1989 and November 2007 esented as follows:

No.	Country	Value of the registered capital brought in foreign currency (million EUR)	% in total capital subscribed in foreign currency
1	Netherland	3,208	18,41
2	Austria	2,194	12,60
3	Germany	1,783	10,23
4	France	1.747	10,03
5	Cyprus	0,870	4,99
6	Italy	0,808	4,64
7	U.S.A.	0,662	3,80
8	Great Britain	0,608	3,49
9	Greece	0,571	3,28
10	Dutch Antiles	0,521	2,99
TOTAL registered capital in foreign currency for top 10 countries		**12,972**	**74,46**

Source: National Trade Registry Office

The origin of FDI reveals a strong integration of the Romanian economy into the European economy: 97.9% of total invested capital in November 2007 comes from Europe, while, North America accounts 0.3% and Asia 1.8%.

The majority of FDI was heavily concentrated in Bucharest with over half of the registered equity contributions, while the smallest inflow of FDI was registered in the region of Moldova (Eastern Romania).

Among the factors that are deemed to support higher FDI in the future the following are the most important:

• Romania is a politically and socially stable country, firmly engaged towards EU accession;

• Romania is Eueopean Union's member and has already gained full membership of NATO;

• Pro-reformist government, determined to continue privatization, restructuring, and administration reform;

• Romania represents the second largest market in the CEE region;

• The privatization program still includes some very interesting companies;

• The crucial geographical positioning of the country, a gateway between East and West of Europe;

• The commitment of investment funds present in the country to develop their business and the association of the government with international financial institutions, such as IMF, EBRD, World Bank, and the EU Commission;

• The high qualification of labor force and its low costs, below the levels of other countries in the CEE region;

• Existence of important natural resources and proximity to energy suppliers;

• As the market is growing, there are increasing business opportunities, while the entry barriers remain low.

Most of the investors present in CE countries were initially attracted by the low labor and production costs, and by fiscal incentives. As the investment increased, however, so did the living standards, getting very close to EU standards. After these countries joined EU at the beginning of May 2004, the fiscal incentives became no longer available for the investors.

Thus, this initial low cost advantage is becoming less and less decisive. Already, labor intensive industries, such as manufacturing, and textiles have invested or are looking for investment opportunities in countries such as Romania, Bulgaria or Ukraine. However, these countries have still to make significant changes in the business environment, as investors are beginning to stress in their investment decision factors such as availability of local raw materials and quality of infrastructure.

Romania is ready to accommodate a higher inflow of FDI in industries such as agriculture, construction materials, automotive industry, oil and gas, petrochemical, energy, metallurgy, telecommunications, transportation, air transport, railways, shipping and shipbuilding, food industry, retail, tourism, IT, financial sector, and distribution. Among these sectors, the most appealing for foreign investors are automotive, software, electronics, telecom, pharmaceutical, and chemical industries.

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