

# ANALYSIS OF FOREIGN DIRECT INVESTMENTS IN ROMANIA

RĂDUCAN LAURA – RAMONA, COSTEA SIMONA CRISTINA  
FACULTY OF ECONOMICS, TIBISCUS UNIVERSITY TIMISOARA  
laura.raducan@gmail.com, simona.costea@gmail.com

**Abstract:**

*One of the solutions for a sustainable economic growth that every state has at its disposal is the foreign direct investment. A company's business expansion by setting up subsidiaries abroad, through merger or acquisition of foreign companies, creates jobs, stimulates the emergence of trade opportunities selling products to a larger market, allows the transfer of technology and increases profitability for the investors.*

*This paper presents the foreign direct investment (FDI) in Romania based on the beginning balance and flows during the financial year, in the resident enterprises established as foreign direct investment.*

**Keywords:** *foreign direct investment, investors, resident enterprises*

**JEL classification:** *F21*

Foreign direct investments bring an essential contribution to economic growth. They create jobs, optimize resource allocation, enable technology transfer and stimulate trade.

Whereas in the last decades, between the world's countries there was a fierce competition on creating the most favorable conditions for attracting foreign direct investments, the global experience shows that improving the investment climate represents the main condition for attracting foreign investors. A correct, fair and non-discriminatory treatment; protection against illegal expropriation; direct recourse to international arbitration, and a favorable tax environment, are just some of the prerequisites for creating a favorable economic environment.

Foreign direct investments are an important element of economic development to any country and its functioning in accordance with the market economy principles. They are important in strengthening the economy of countries in transition and integrating these countries into the world economy. With the help of foreign direct investment, the modernization of national economies takes place by implementing advanced technologies, using the most advanced equipment and introducing the latest quality standards.

Foreign direct investments are those investments that require a long-term business relationship, reflecting a sustainable interest of an economic entity (direct investor or parent enterprise) as well as its control over an enterprise resident in a country other than that of the investor (affiliated company).

A direct foreign investment implies the existence of three components namely: capital, reinvested portfolio and loan granted between subsidiaries. Capital, technologies and organization methods are transferred through foreign direct investments; they practically represent an extension of enterprises from the country of origin to the host country.

A foreign direct investment implies the existence of a lasting investment relationship between a resident entity and a non-resident entity. It usually implies that the investor exerts a significant management influence in the company which he invested in.

The paid share capital and reserves which return to a non-resident investor that owns at least 10% of the subscribed share capital of a resident company, the loans between this investor and the group which he belongs and the company in which he invested in, as well as its reinvested profit are also considered as being included in the foreign direct investments category.

It is also considered foreign direct investments the equity of resident companies over which the non-resident investor exercises an indirect significant influence, namely: equity of associates and resident subsidiaries of the resident company in which the non-resident investor holds at least 10% of the subscribed share capital.

In Romania there are several types of foreign direct investments differentiated by the contribution of foreign shareholdings flows to capital in foreign direct investment enterprises:

- Greenfield: setting up businesses by or with foreign investors (investments started from zero);
- Mergers and acquisitions: full or partial takeover of enterprises by foreign investors from residents;
- Development of companies: increasing capital holdings of foreign investors in foreign direct investment enterprises.

**Table no. 1. Distribution on development regions of foreign investments in Romania**

(million Euros)

| Region             | 2007  |               | 2008  |               | 2009  |               | 2010  |               | 2011  |               |
|--------------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|
|                    | value | %of total FDI | value | %of total FDI | value | %of total FDI | value | %of total FDI | value | %of total FDI |
| Bucharest-Ilfov    | 27516 | 64.3          | 30594 | 62.7          | 31699 | 63.4          | 32720 | 62.2          | 34021 | 61.7          |
| Center             | 3541  | 8.3           | 4146  | 8.5           | 3703  | 7.4           | 3909  | 7.4           | 4215  | 7.6           |
| South-Muntenia     | 2942  | 6.9           | 3551  | 7.3           | 3576  | 7.2           | 3816  | 7.3           | 4059  | 7.4           |
| West               | 2448  | 5.7           | 3411  | 7.0           | 3095  | 6.2           | 3446  | 6.5           | 3987  | 7.2           |
| Southest           | 2365  | 5.5           | 2626  | 5.4           | 2938  | 5.9           | 3290  | 6.3           | 2970  | 5.4           |
| Northwest          | 1907  | 4.5           | 2108  | 4.3           | 2058  | 4.1           | 2232  | 4.2           | 2454  | 4.5           |
| South-West-Oltenia | 1379  | 3.2           | 1226  | 2.5           | 1940  | 3.9           | 1928  | 3.7           | 1806  | 3.3           |
| Northest           | 672   | 1.6           | 1136  | 2.3           | 975   | 1.9           | 1244  | 2.4           | 1627  | 2.9           |
| Total              | 42770 | 100           | 48798 | 100           | 49984 | 100           | 52585 | 100           | 55139 | 100           |

(Source: Annual statistical survey, National Bank of Romania, 2013)

Analyzing the data from Table 1 it can be observed that there is a similar evolution of foreign direct investments in Romanian during the analyzed period. From a territorial point of view, we can observe an orientation of foreign direct investments especially in Bucharest - Ilfov region. The least attractive territorial region corresponds to the northeast region, where there were the lowest values.

The highest value of foreign direct investments was registered in 2011 in Bucharest and consisted in 4,021 million Euros. It is noted that the value of foreign investments increased during the analyzed period, in each region.

The Bucharest - Ilfov region recorded in 2007 the highest percentage of total FDI, distributed by development regions (64.3%). From this evidence, it appears that is

attempted is a gradual distribution of foreign direct investment in other areas in Romania.

From analyzing the data presented in Table 2 it can be seen that, in terms of distribution by main economic activities (according to NACE code), foreign direct investments were mainly oriented in the industry, in the analyzed period. The maximum value (24,487 million Euros) of foreign direct investments in industry was registered in 2011, when a maximum percentage of 44.4% of total FDI was obtained.

Other economic activities that have attracted important foreign direct investments are financial intermediations and insurances (reaching a maximum of 23.3% of total FDI in 2007), trade (maximum of 14.0% of total FDI reached in 2007), constructions and real estate transactions (12.9% of total FDI in 2009), and information technology and communications (6.7% of total FDI in 2008).

**Table no. 2. Distribution by main economic activities of foreign investments in Romania**

(million Euros)

| Economic activity  | 2007  |               | 2008  |               | 2009  |               | 2010  |               | 2011  |               |
|--|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|
|  | value | %of total FDI | value | %of total FDI | value | %of total FDI | value | %of total FDI | value | %of total FDI |
| Industry (mining and extracting, manufacturing, electricity, gas and water)            | 17409 | 40.7          | 20138 | 41.3          | 20680 | 41.4          | 23093 | 43.9          | 24487 | 44.4          |
| Professional, scientific, technical and administrative activities and support services | 0     | 0             | 1617  | 3.3           | 2299  | 4.6           | 2560  | 4.9           | 2679  | 4.8           |
| Agriculture, forestry and fishing  | 0     | 0             | 707   | 1.4           | 552   | 1.1           | 1068  | 2.0           | 1316  | 2.4           |
| Trade  | 5970  | 14.0          | 6060  | 12.4          | 6164  | 12.3          | 6519  | 12.4          | 6282  | 11.4          |
| Constructions and real estate transactions   | 3329  | 7.8           | 6155  | 12.6          | 6453  | 12.9          | 4746  | 9.0           | 5897  | 10.7          |
| Hotels and restaurants   | 270   | 0.6           | 181   | 0.4           | 213   | 0.4           | 417   | 0.8           | 431   | 0.8           |
| Financial intermediation and insurance   | 9961  | 23.3          | 10026 | 20.5          | 9510  | 19.0          | 10055 | 19.1          | 10026 | 18.2          |
| Information technology and communications  | 2784  | 6.5           | 3283  | 6.7           | 3235  | 6.5           | 3081  | 5.9           | 2967  | 5.4           |
| Services rendered to enterprises   | 1940  | 4.5           | 0     | 0             | 0     | 0             | 0     | 0             | 0     | 0             |
| Transports   | 529   | 1.2           | 500   | 1.0           | 684   | 1.4           | 788   | 1.5           | 787   | 1.4           |
| Other activities   | 578   | 1.4           | 131   | 0.4           | 194   | 0.4           | 258   | 0.5           | 267   | 0.5           |
| TOTAL  | 42770 | 100           | 48789 | 100           | 49984 | 100           | 52585 | 100           | 55139 | 100           |

(Source: Annual statistical survey, National Bank of Romania, 2013)

Throughout the analyzed period we can observe an ascending evolution of foreign direct investments in the following fields of activity: industry, and in

professional, scientific, technical, and administrative activities and support services. Regarding the following economic activities: agriculture, forestry and fishing, trade, constructions and real estate transactions, hotels and restaurants, financial intermediation and insurances, information technology and communications, transports, is highlighted a fluctuating evolution from year to year.

The least developed sectors are agriculture, forestry and fishing, hotels and restaurants, and transport. A development of the infrastructure, tourism and agriculture, would attract more investors in future periods and to these economic activities.

Among the advantages offered by our country to attract foreign direct investments are the market and the geographical position advantages. Romania is one of the largest markets in Central and Eastern Europe and is a gateway to the European Union.

Our country has a significant tourism potential, rich natural resources and skilled workforce at competitive prices. Also, Romania grants a number of tax benefits to foreign investors.

On the other hand, the advantages registered in our country are multiple. Multinational companies in Romania contribute to improving technologies, training and qualification of workforce, provide access to external financial markets and last but not least they stimulate capital formation through the saving and investing process. They contribute to the introduction of a new payroll system, and the introduction of modern financial services in the insurance field.

From a fiscal standpoint, multinational enterprises contribute to increased budgetary revenues through direct and indirect perceived taxes.

Foreign direct investments can be linked with other important benefits such as:

- the most important earning does not come so much from the actual investments, but from profits taxation;
- achieving economies of scale;
- obtaining know-how to autochthonous firms;
- adopting more efficient resource management methods.

The role of foreign direct investments is even higher in developing countries, where domestic enterprises are relatively small, do not have financial resources and are not able to purchase the latest technologies. These countries also differ from the developed ones in terms of market size, degree of protection and availability of qualified workforce.

This analysis reveals the importance of attracting foreign direct investments in Romania. The main result of these investments is the fact that, through all of their effects, they lead to an economic growth in the host country.

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