

THE DYNAMICS AND STRUCTURE OF THE FOREIGN DIRECT INVESTMENTS IN ROMANIA

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The need for capital investment, which amounts to a level well above current economic possibilities, imposes as an objective condition the use of foreign capital in the form attracting direct capital investments. Investments are an important driving force for economic development. Foreign investments in Romania have oriented themselves depending on the accessibility and the areas potential, as well as the business mentality and tradition in the field. Also, another important factor of the location of foreign direct investment is the availability of highly qualified and cheap workforce. In the analyzed period of 2003-2009 there has been an increase in the volume of foreign direct investments (FDI) in Romania. In terms of territory, they were directed mainly towards Bucharest-Ilfov, other development regions benefiting from important flows being the Center, South, South-East and West regions.

Keywords: capital, foreign direct investment, regions of development

Classification JEL: R11

1. Introduction

The need for foreign capital lies in the inability of their national economies to meet the need of capital for economic recovery and boosting investments.

On the other hand, this need of foreign capital is amplified by the technological lag much behind of the industrial and production facilities in countries in transition. The enterprises technological renewal in these countries is placed in the foreground of short-term development strategies by all the Eastern-Central-European countries, without which competitiveness of these economies products become very precarious.

Foreign direct investment can be defined as a lasting investment relationship between a resident entity and a non-entity, usually involving the exercise by the investor of a significant management influence in the enterprise in which it has invested.

Foreign direct investments are considered: paid-up share capital and reserves that are incumbent to a non-resident investor holding at least 10% of the subscribed capital of a resident enterprise, the loans between this investor and the enterprise he invested in, as well as the profit reinvested by him.

The foreign direct investment regime and the movement of capital in the Romanian economy involves a sufficiently flexible framework, characterized by political incentives, normative and institutional that interfere and interact positively with the general economic policy.

Currently, Romania's policy on foreign direct investment is based on three coordinates, as follows:

- Equal treatment for Romanian and foreign investors;
- Free access to markets throughout the economy;
- Minimal government intervention in economic activities.

Foreign investors always seek that particular environment where domestic investments are successful. Romania still has natural resources, but it's most important resource is the qualified staff or easy to qualify staff it holds. There is however a lack of incentives to make people work

(eg. Low wages). By adopting suitable policies it is possible to improve the performance, labor productivity.

When Romania is taken into consideration as a possible location of their development, foreign investors take into account it's offered advantages:

-One of the biggest outlets in Central and Eastern Europe (over 21 million inhabitants – the second after Poland);

-Attractive positioning: allows easy access to countries of former USSR, the Middle East and North Africa, and it is at the crossroads of three European transport corridors;

-Well-developed networks of mobile telecommunications systems GSM and NMT / LEMS;

-Cheap and well prepared workforce, having serious technological knowledge in IT and engineering;

-Rich natural resources, including extremely fertile agricultural land, oil and natural gas;

Important tourist potential.

Foreign investments in Romania have oriented themselves depending on the accessibility and the areas potential, as well as the business mentality and tradition in the field.

2. The dynamics of foreign direct investment in Romania

Investments are an important driving force for economic development. Foreign direct investment can bring a substantial increase in productivity by bringing not only its own technology, but also the best practice.

The fact that Romania joined the EU in 2007 has left companies more time to prepare. The business environment has become extremely competitive, and the Romanian companies have had to beat the big names in Europe. The good news is that Romanian big companies were more readily implanted in the Union, and the workforce had free movement.

Accession to the European Union has brought an improvement of the Romanian business environment, improvements which began to be felt already in terms of a stable legislative framework and the existence of more transparent business practices. The barriers of free movement of services and goods have already been eliminated or are in the process of elimination.

In terms of improving the business environment, Romania has already started to become an attractive target for foreign investment. Attracting more foreign investment will provide quick and direct access to efficient management, to modern technologies, and new market segments.

On the background of improving the investment climate, companies must induce massive shifts in production and export, with effects on competitiveness growth. Romanian industry must move from mass production, based mainly on quantitative criteria, cost and reliability, to a highly customizable production based on quality.

Lately there has been an increase in the volume of foreign direct investment (FDI) in Romania (Table no. 1), representing an increase of over 115% in 2005 compared to figures of 2003 and 320% in 2007 compared to the same period. Foreign capital was more concentrated in the regions of Bucharest-Ilfov, West, South East Center, which had a positive effect on labor markets in these regions, creating permanent qualified work force and business development services (for eg firms specialized in employment).

In 2003, 53.9% and in 2007 over 60% of total direct investments in Romania have been directed to the Bucharest-Ilfov region. The main recipient sectors are real estate transactions - business and housing - and financial intermediation (Bucharest) and food (Ilfov). However to be taken into account that some direct investment recorded in Bucharest correspond to physical investments located in other regions of Romania. For example, there was no connection found between the rate of growth of SMEs and FDI trends.

Table No 1

The structure of foreign direct investments until 2007 in Romania

Development Region	FDI balance at 31 December 2003		FDI balance at 31 December 2005		FDI balance at 31 December 2007	
	Value (mil. Euro)	Total %	Value (mil. Euro)	Total %	Value (mil. Euro)	Total %
North-East	300,8	3,0	292	1,3	672	1,6
South-East	1.107,7	10,9	1838	8,4	2.448	5,7
South Muntenia	846,1	8,3	1388	6,3	2.942	6,9
South-West Oltenia	360,5	3,5	745	3,4	1.379	3,2
West	751,9	7,4	1.491	6,8	2.365	5,5
North-West	676,9	6,7	1.257	5,8	1.907	4,5
Center	644,6	6,3	1.610	7,4	3.541	8,3
Bucharest-Ilfov	5.471,1	53,9	13.264	60,6	27.516	64,3
Romania	10.159,6	100,0	21.885	100,00	42.770	100,00

Source: NIS and NBR - Research statistics on foreign direct investment in Romania in 2003 and 2007;

Bucharest-Ilfov region attracted more than 60% of total realized FDI in Romania, since the capital city is the main pole of attraction of foreign investment, a fact confirmed by the large number of companies with foreign capital located here. Also, Constanta Port in turn acts as a pole of attraction for investors, most foreign investment in South East Region, focusing in the city of Constanta.

The relatively high degree of economic development of the region of Bucharest - Ilfov reflected on the significant share (64.3%) foreign direct investment in 2007 (Figure no. 1). South East Region which receive special attractiveness which is the port of Constanta and the Danube ports, Galati and Braila.

We observe the orientation of FDI mainly to Bucharest-Ilfov (64.3%), other development regions receiving significant FDI being the Center (8.3%), South (6.9%) South East (5.7%) and West (5.5%). In terms of value after the capital subscribed, the Bucharest Ilfov region is followed by less and later industrialized regions (South-Muntenia and South-East). The explanation lies in the fact that in these regions many investment projects were made "from scratch" because of the lack or insufficiency of infrastructure specific to the economic environment.

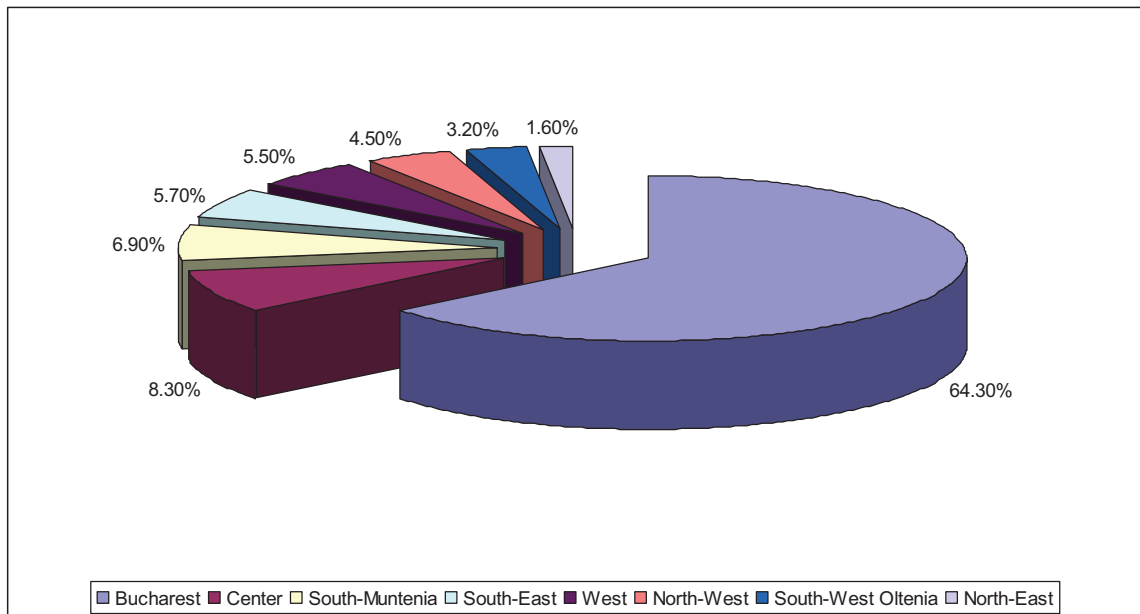


Figure No. 1. Division into regions of development of the foreign direct investments at 31 December 2007

The western and north-western area of the country enjoys a relatively high share of foreign participation in firms capital, against the continuing backdrop of traditional trade and a zonal behavior in continuous adaptation to the international business environment. Availability of highly qualified workforce is an important factor in investment location. As the transfer of productive and creative activities to Romania is increasing demand for highly qualified workforce will increase. Regions that have managed to attract a significant volume of investment, as Western Region, are already facing difficulties in finding highly qualified workforce on the work market, especially in the technical and administrative fields.

3. The structure of foreign direct investments on the main areas of activity and country of origin

Investments were located mainly in manufacturing (32.9%) (its most attractive being metallurgy, food, beverages and tobacco, oil processing, chemicals, rubber and plastics, automobile industry and cement, glass, ceramics). Also, banking and insurance has attracted investment representing 23.3% of the balance, retail and wholesale (14%), construction and real estate transactions (7.8%) and telecommunications (6.5%), other fields have percentages below 5% of total foreign direct investment. (Figure No 2) tangible and intangible assets with a balance at the end of 2007 of 21.39 billion euros, representing 50% of total direct foreign investments, inducing a significant degree of stability of direct foreign investment.

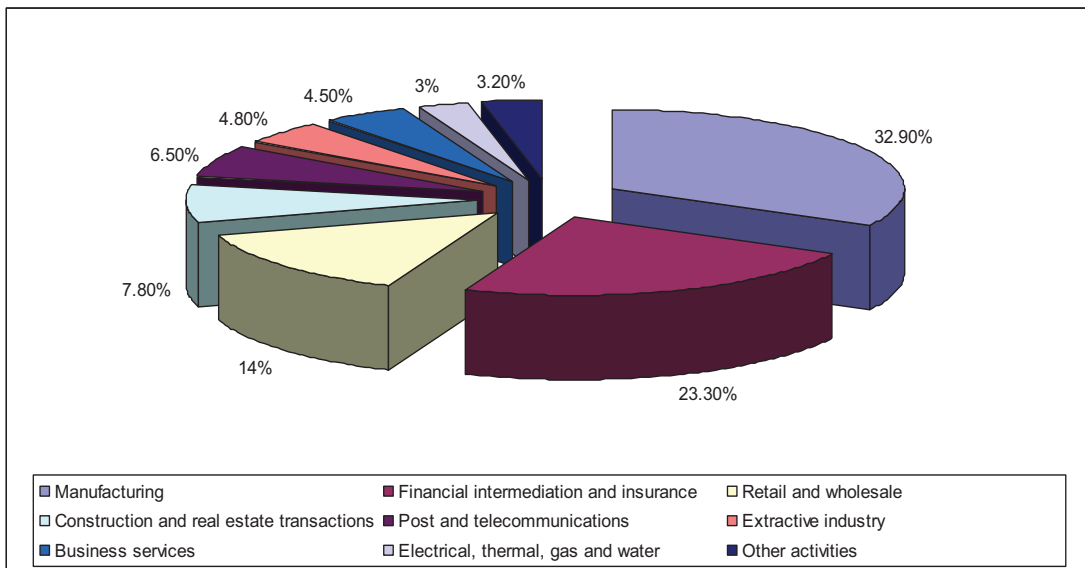


Figure No 2. The structure of FDI balance at 31 December 2007 on the main areas of activity

Orientation of foreign direct investment towards industry is due to advantages offered by Romania in this field such as lower land prices than in other countries in the region, developed infrastructure, skilled and cheap labor, the production capacity and tradition in this field. In the industry the foreign investments in the auto components industry had a great impetus. So several companies have completed or have expressed an intention to carry out investment projects in this area.

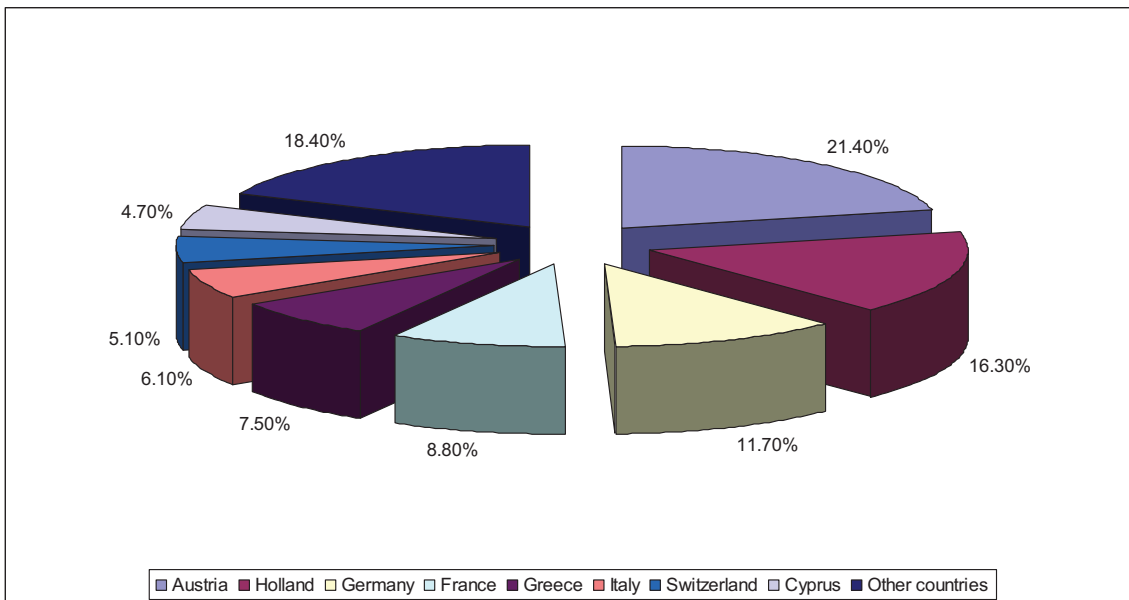


Figure No 3 Breakdown by country of origin of foreign direct investment

Top 5 countries ranked by the share of FDI held in balance in 2007 are Austria (21.4% of FDI balance at the end of 2007), the Netherlands 16.3%, Germany 11.7, France 8.8% and Greece (7.5%).

Years 2008 and 2009 led to increased flows of foreign direct investment attracted by Romania. In 2008, the flow of foreign direct investment attracted by Romania recorded a value of 9024

million Euro, increasing by 24.4% compared with the previous year. (7250 million Euro). Also according to the Romanian Agency of Foreign Investments (ARIS) in the first 2 months of this year foreign direct investment attracted by Romania recorded a value of 1374 million Euro, increasing by 38% compared with the similar period a year earlier. (995 million Euro).

4. Conclusions

Romania remains an attractive and profitable destination for foreign direct investment, foreign partners decisions being influenced by the calculations of economic efficiency, including the low cost of higher qualified labor compared to other states.

Location and extent of foreign investments in the development regions, as well as the loss of the competitive capacity from the enterprises in both domestic and external markets, due to moral and physical wear of the technologies (particularly in regions located in the eastern part of the country) and limited access to SMEs financing, is one of the major causes that led and lead to disparities between them.

Foreign investments in Romania have oriented themselves depending on the accessibility and the areas potential, as well as the business mentality and tradition in the field.

The western and north-western areas have enjoyed a relatively high share of foreign participation in firms capitals, against the continuing backdrop of traditional trade and a zonal behavior in continuous adaptation to the international business environment. The foreign capital was more concentrated in the regions of Bucharest-Ilfov, West, South-East, Center, which had a positive effect on labor markets in these regions, at creating permanent qualified work force and at the development of business services.

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