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**Evolution and Impact FDI in Romania,
in the Context of Past and the Present Macroeconomic**

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Abstract: In the article we want to emphasize the evolution of FDI in Romania during 2008 – 2010. Through the achieved foreign direct investments, the companies are following to obtain the largest possible gain from the capitalization of the own “advantages”. As a result, these internalize the external markets, generating internal flows (within their organizational structures) of goods, services, knowledge, etc. So, the companies make FDI when they have “benefits” that can be used with greater profitability outside the national borders, which implies, that it was reached a certain level of economic development of the source countries. The research methodology is found in using the literature of specialty, statistical data and graphs. The decision to invest in a particular country is based on a thorough analysis of the local factors (advantages of the host country), correlated with the necessities of profitability of the economic agents and the size (intensity) of risk associated with the operation in a foreign environment. In conclusion the FDI, in the first then months of 2010, totaled 2.145 billion euros, in decrease with 26% compared to the similar period of the last year when there was registered a level of 2.9 billion euros.

Keywords: investment; evolution; economy; profit; flow

JEL Classification: E6; H3; O1

1. Introduction

Through the foreign direct investments made, the companies aim to obtain the largest possible gain from the capitalization of the own: advantages. As a result, they internalize the external markets, generating internal flows (within their organizational structures) of goods, services, knowledge, etc. So, the companies make FDI when they have “advantages” that can be capitalized with the greater profitability outside the national borders, which implies, that it was reached a certain level of economic development of the sources countries. The foreign investments are the component of international flows which reflect the purpose of an entity (individual or legal person) resident in a country, to obtain an interest (on short or long term) in a resident company in other country. Unlike the foreign portfolio investment, the foreign direct investment assumes the transfer by the issuing agent of control and decision on the receptor’s activity.

A possible definition would be that the foreign direct investment is a category of the international investments that reflects the purpose of a resident entity in a country (direct investor) to obtain a lasting interest in a resident company in another country (direct investment). (Bal & Dumitrescu, 2006)

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Another definition would be: the direct investments are consisting in the transfer of a industrial package in which are summarized capital, technologies, methods of industrial organization, managerial expertise, marketing skills, etc. which allows the investor to exercise the right of control over the investment. (Bonciu & Dinu, 2003)

Under the conceptual aspect, the direct foreign investment involves the internalization of tangible and intangible assets in the following conditions: the involved economic agents involved to be placed in different national spaces; the investor's interest to be manifested on long-term; the investor to exercise the control on the assets in which the investment was made. Through the foreign direct investment, the companies aim to obtain the largest possible gain from the capitalization of own advantages. As a result, they internalize the external markets, generating internal flows (within their organizational structures) of goods, services, knowledge, etc. So, when the companies achieve FDI when they have "advantages" that can be capitalized with greater profitability outside the national borders, which implies, that was reached a certain level economic development of the source countries.

The decision to invest in a particular country is based on a thorough analysis of local factors (the advantages of host country), correlated with the necessities of profitability of the economic agents and the size (intensity) of the risk afferent to the operation in a foreign environment. The weight of each factor in stabilizing the decision to invest depends on the motivation of the foreign investor. In the current context, of the economy of global market, where any own advantage can erode very quickly, these motivations take a special significance. Although the size of the market and the cost of production factors are the main motivations of the multinational companies to invest in the Central and Eastern Europe, an increasingly importance granted to the economic and political (stable) environment, quality of governmental institutions, of the legal system (stable and transparent), level of access to information and degree of development of infrastructure (of transport, communication, etc.)

2. Research Methodology

The research methodology is found in the use of specialty literature, statistic dates and graphics. The decision to invest in a certain country is based on the thorough analysis of the local factors (advantages of the host countries), correlated with the necessities of profitability of the economic agents and size (intensity) of the afferent risk of operating in a foreign environment.

From a conceptual point of view, the positive implications at macroeconomic implications refer mainly to the following aspects:

- Sustain the economic growth;
- Stimulates the domestic investments;
- Supports the restructuring and privatization;
- Sustain the increase of capital investments;
- Generate positive effects on the commercial balance;
- Sustain the increase of state budget revenues.

Within the article we have presented the evolution of FDI during three years. The evolution of course due to several factors is in uptrend.

3. Results

The net inflows of ISD in 2008 registered a level of 9.496 million euro and are structured as follows:

- Net participations of the foreign direct investors at the social capital of the enterprises, foreign direct investment in Romania amounting 4.873 million Euros (51.3% of the ne flow of FDI). The net participations result from sizing the participations in value of 5.265 million of euro with net loss, amounting 392 million euro. The net loss resulted from the decrease of net profit of the enterprises foreign direct investment in 2008, amounting 6.412 million euro dividends distributed in 2008 and

with the losses of the enterprises foreign direct investment from 2008 amounting 4.108 million euro. The calculations are performed in accordance with the international methodology of determining the reinvested profit by the FDI enterprises.

- The net credit received nu the enterprises foreign direct investment from the foreign direct investors including in the group, amounting 4.623 million euro, representing 48.7% of the net inflow of FDI.

3.1 FDI Balance at the End of 2008

The final balance of FDI in 2008, resulted from the addition of the initial balance of the net FDI flow, as well as of the positive/negative value resulted from the re-evaluations due to the changes of exchange rate and of the prices of some assets, both from accountable restatement of the value with initial balances, recorded the level of 48.798 million euro, higher with 14% than the final balance of FDI of 2007. The participations at the social capital (including the reinvested profit) of the enterprises, of foreign direct investment were at the end of 2008 year amounting 34.892 million euro (71.5% of the final balance of FDI), level with 10% higher than in 2007, and the net total credit received by these from the foreign direct investors, including from within the group, registered the level of 13.906 million euro, which represented 28.5% of the final balance of FDI and it was with 23% superior to the level of previous year. The net credit includes both the medium and long term loans granted by the foreign investors of their enterprises of Romania, both directly and through other non-resident companies, members of the group.

3.2 Distribution of FDI Balance on the Main Economic Activities

In terms of orientation of the foreign investors towards economic branches, FDI was located mainly in manufacturing industry (31.3% of total), within it the most attractive for FDI being metallurgy (6.9% of total), food industry, of beverages and tobacco (4.6%), mineral oil processing, chemical productions, rubber and plastics (4.3%), industry of transport meanings (4%) and cement, glass, ceramics (3.6%). Is observed a share yet reduced, compared to the potential, of some domains such as textile, clothing and leather industry (1.6%). Other activities that have attracted important foreign direct investments are the financial intermediations and insurances, which comprise the banking activity, of non-banking financial institutions and of insurances and are representing 20.5% of the total FDI, constructions and real estate transactions (12.6%), commerce (12.4%), information technology and communications (6.7%)

3.3 Incomes Achieved from Foreign Direct Investment

The net incomes achieved by the foreign direct investors in 2008 have recorded the amount of 2.938 million euro, which represents a decrease with 32.5% compared to 2007. Of these, the most important part (2.304 million euro, respective 78.4% of total net incomes) is representing the net incomes of participations at capital. The net incomes from participations at capital are the net profits obtained by the FDI enterprises, in amount of 6.412 million euro, diminished with the losses registered by the FDI enterprises in amount of 4.108 million euro. Through the decrease of net incomes of FDI from participations at capital (amounting 2.304 million euro) with the value of distributed dividends in 2008 to the foreign direct investments (amounting 392 million euro, calculated according to the international methodology of determining the reinvested profit. The net incomes from interests received by the foreign direct investors on the loans granted to their enterprises from Romania are less broad, with a level of only 634 million euro, representing 21.6% of the net incomes of the foreign direct investors.

3.4 Net flow in 2009

The net inflows of FDI in 2009 reached to a level of 3.488 million euro and are structured as follows:

- Net participations of the foreign direct investors to the social capital of the enterprises with foreign direct investment from Romania in value of 1.729 million euro (49.6% of the net flow of FDI). The net participations result from the reduction of the participation in amount of 3.118 million euro with net loss amounted to 1.389 billion euro. The net loss has resulted from the decrease of the net profit of the enterprises with foreign direct investment from 2009, amounting 4.496 million euro, with 1608 million euro dividends distributed in 2009, as well as and with the losses of the enterprises with foreign direct investment from 2009, amounting 4.277 million euro.
- The net credit received by the enterprises with foreign direct investment from the foreign direct investors including from within the group, amounting 1.759 million euro, which represents 50.4% of the net flow of FDI.

3.5 FDI Balance at the End of 2009

The final balance of 2009, resulted by the addition at the initial net flow of FDI, as well as of the value positive/negative differences which are from the revaluations due to the changes of exchange rates and prices of some assets, as and from accountable restatements of the value, of some initial balances, recorded the level of 49.984 million euro, higher with 2.4% then the final balance of FDI of 2008. The participation at the social capital (including reinvested profit) of the enterprises with foreign direct investments were amounting at the end of 2009 35.600 million euro (71.2% of the final balance of FDI), level with 2% higher than in 2008, and the total net credit received by these from foreign direct investors, including from the group, registered the level of 14.384 million euro, which represented 28.8% of the final balance of FDI and is with 3.4% superior to the level of the previous year. The net credit includes both the medium and long term loans and those on short-term granted by the foreign investor to their enterprises from Romania, both directly and through other nonresident companies members of the group.

3.6 Distribution of FDI by the main economic activities

In terms of orientation of foreign direct investors towards economic branches, the FDI was located mainly in the manufacturing industry (31.1% of total), within it the best represented branches being: mineral oil processing, chemical productions, rubber and plastics (6.3% of total), metallurgy (5.2%), industry means of transport (4.7%), food industry, of beverages and tobacco (4.1%), cement, glass, ceramics (3.3%). There are domains with reduced share compared to the potential such as textiles, clothing and leather (1.4%). In addition to industry, activities that have attracted important FDI are the financial intermediations and insurances, which comprise the banking activity, of non-banking financial institutions and of insurances and are representing 19 % of the total FDI, constructions and real estate transactions (12.9%), commerce (12.3%), information technology and communications (6.5%).

Table 1. FDI in Romania on 31 December 2009 breakdown by main economic activities (million euro)

	Total	
	Value	% din total ISD
TOTAL, of which:	49984	100,0
Industry	20680	41,4
Extractive industry	2221	4,5
Manufacturing industry, of which:	15555	31,1
- aliments, beverages and tobacco	2058	4,1
- cement, glass, ceramic	1629	3,3
- fabrication of wood products, including furniture	962	1,9
- fabrication of computers, other electronically, optic and electric products	690	1,4
- machineries, and equipments	943	1,9
- metallurgy	2577	5,2
- means of transport	2373	4,7
- mineral oil processing, chemical products, rubber and plastics	3132	6,3
- textiles, clothing and leather	717	1,4
- other branches of manufacturing industry	474	0,9
Electrical energy, gas and water	2904	5,8
Professional, scientific, technical, administrative and support services activities	2299	4,6
Agriculture, forestry and fishery	552	1,1
Commerce	6164	12,3
Constructions and real estate transactions	6453	12,9
Hotels and restaurants	213	0,4
Information technology and communications	3235	6,5
financial intermediations and insurances	9510	19,0
Transports	684	1,4
Other activities	194	0,4

Source: INS Romanian Statistical Yearbook 2010

3.7 Incomes Achieved from Foreign Direct Investments

Net incomes obtained by the foreign direct investors in 2009 recorded the amount of 694 million euro, which are representing a decrease with 2.244 million euro in report with the previous year. The net incomes from participation at capital are amounting 219 million euro (31.6% of total net incomes) and are the net profits obtained by the FDI enterprises, in value of 4.495 million euro, diminished with the registered losses by the FDI enterprises amounting 4.277 million euro. Through the reduction of the net incomes from participations at capital (in the amount of 219 million euro) with the value of dividends distributed in 2009 to the foreign direct investors (amounting 1.608 million euro) is obtained

a net loss on overall of FDI of 1.389 million euro. Net incomes from received interests by the foreign direct investors at the granted loans to their enterprises from Romania had a level of 475 million euro, these representing 68.4% of the net incomes of the foreign direct investors.

3.8 FDI in 2010

The FDI stood in the first quarter of 201 to 754 million euros. Of these the participations at capital (including the reinvested profit) amounted 650 million euro, and intra-group credits 104 million euro. The foreign direct investments are representing 50.1% of the current account. In the period January – November 2010, the FDI amounted only 2,269 billion euro, in decrease with 25.5% compared to the similar period from 2009. We consider that the decline occurred amid the reluctance of the businessmen to invest in an economy found in recession that had to raise VAT by not more than 5 percentage points. As an overall look, after the data by the end of 2010, it is known already that 2010 is the year with the lowest FDI in the last six years. And this because in the first 11 months of the last year, the FDI volume totaled 2,269 million euro, in decrease with 25.5% compared to the similar period from 2009. Moreover, during the period January – November 2010 the FDI were achieved mostly by participations at capital, which amounted 1,419 billion euro, the rest of inflows, of 850 million euro, representing intra-group credits. In other words, the mother companies have reduced the funding lines, but “invested” to cover the losses.

4. Conclusions

Basically, since the crisis started, the FDI volumes in Romania had reduced continuously in the conditions in which at the final of 2008 those were amounting 9, 5 million euro. The next year the FDI decreased at half, to 4.89 billion euro, covering in proportion of 96.9% the deficit of current account. In the first 11 months the deficit was funded only in proportion of 43.9% through direct investments of non-residents in Romania. Romania is more attractive for the investors' comparative with its neighbors that were badly affected by the crisis. An example in this regard is the constructions sector, where the average level for investments is situated with about 55% under the European average. We consider that the decline occurred amid the reluctance of the businessmen to invest in a economy found in recession that had to raise VAT by not more than 5 percentage points. To attract some new investments, can be done through the development of capital market by establishing an accelerated program, clear and transparent of privatization of the state companies, as well as and the local and international listing of the Property Fund. The stimulation of the development of the domains in which Romania could have an competitive advantage, as well as of offering incentives for investments on large scale on long term – in energy, infrastructure and agriculture. Defining an action plan to place Romania in the top 20 of the most competitive economies from Europe, in the next 10 years and promoting the strategy of liberalization of energy and natural gas market. Another thing which should be taken into account is that to be respected the promises that were initially made to the foreign direct investors to maintain a positive climate and to ensure the increase of exports. The bureaucracy reduction and fiscal relaxation would have a beneficial effect much greater now. When the investors are running from the neighboring countries because of tax increases and seek alternatives. Romania can profit by the un-attractive economic policies of its neighbors to bring more foreign capital in the country.

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