

## ANALYSIS OF FOREIGN DIRECT INVESTMENT STOCK IN ROMANIA IN 2007-2010

**PÎRVU DANIELA**

*Lecturer Ph.D., University of Pitesti, Romania, ddanapirvu@yahoo.com*

**NETCU ELEONORA**

*University of Pitesti, Postgraduate Student Romania, nory\_netcu@yahoo.com*

### **Abstract**

*This paper aims to provide an analysis of foreign direct investment stock in Romania in 2007-2010 by branches of national economy and country of origin. The study's findings show that: (1) the structure of foreign direct investment stock in Romania by sector has not changed under the influence of the economic crisis; (2) it is necessary a geographical diversification of foreign direct investment in our country.*

**Key words:** *foreign direct investment, economic crisis, economic growth, localization.*

**JEL Classification:** *F2, F15, O11*

### **1. Introduction**

The period 2007-2010 marked the Romanian society and economy through significant and, sometimes, even dramatic changes. From a period characterized by high rates of economic growth and exaggerated optimism, the national economy and economic actors changed their position and attitudes. The Romanian economy has gone through several recessions since 2009, the most people's perception of the future financial situation registered a negative trend from the manifestation of the international economic crisis in Romania (as seen in the press releases of GfK Romania, published after monthly achieving of Consumer Confidence Barometer, study co-funded by the European Commission) and businesses were pessimistic towards the evolution of economic activities both in 2009 and in 2010 (according to surveys of the National Institute of Statistics).

Because foreign direct investment had a particularly important role in the economic development of Romania under December 1989, an analysis of foreign direct investment in last years of economic prosperity and in first years of economic crisis is particularly useful. In this way we might make some remarks on priority actions of Romanian authorities in order to relaunch the economic growth in our country.

Foreign investors may consider the benefits of our country to attract foreign direct investment. The first advantage is related to the location and size of the market; Romania has one of the largest markets in Central and Eastern Europe. In terms of resources, it is a rich country in natural resources, including surface and underground waters, fertile agricultural land, oil and gas. The industrial infrastructure is well developed; the presence of international banks in the Romanian market, well developed mobile networks, extensive facilities for maritime and river navigation are other advantages of choosing Romania as a possible location for business.

### **2. The role of foreign direct investment in Romania**

Efforts of various countries for attracting foreign direct investment are generated by various benefits generated by the success of this approach: creating jobs, diversifying the national economy (development of new sectors of economic activity), contributing to the formation of human capital, using new technology etc.

Approaching the time of Romania's accession to the European Union increased the interest of foreign investors for our economy, given the growth of prospects for economic, social and political stability, as well as the increase in capital flows by attracting structural and cohesion funds. Studies have shown that Romania's economic integration will have many beneficial effects, so experts forecasted, based on available statistics until 2006, that the Romanian economy will attract greater flows of foreign direct investment. This flows of foreign direct investment will accelerate, in turn, through spillover effects, the process of European integration (Ivan and Iacovoiu, 2008). Our country has become a better candidate for the absorption of foreign direct investment, especially export-oriented foreign direct investment, by Romania's accession to the European Union (Pop and Achim, 2008). Romania may use such foreign direct investment as a source of capital, know-how, technological progress and for stimulating economic growth.

Positive macroeconomic implications of foreign direct investment flows were numerous, including the following: supporting economic growth, improved balance of payments, restructuring and reorganization economic activities, etc. Applying multidimensional analysis techniques, a number of authors have demonstrated that macroeconomic indicators in Romania are strongly influenced by foreign investment flows (Stancu and Constantin, 2011). Other authors have shown that changes in the volume of foreign direct investment in Romania do not have a

major influence on economic growth, but still they are significant (Pirtea and Milos, 2009). During 2000-2010, foreign direct investment has contributed to the growth rate of GDP per capita (Vintilă and Zaharia, 2012).

Foreign direct investment interact with the host country's existing competitive advantage and simultaneously influence the future competitive advantage. In the case of Romania This is shown by the synchronized evolution of foreign direct investment, competitiveness and economic growth (Popa and Crăciun, 2011).

In the pre-accession period, foreign investors have concentrated their activity in industry, because of the advantages offered by Romania in this field: low land prices compared to other countries in the region, the cheap and skilled labor, industrial production capacities, the tradition (Ministry Economy and Trade, 2006). Most foreign investors had their origins in European countries.

### 3. Analysis of foreign direct investment stock in Romania by field of activity

Because of the role of foreign direct investment in economic growth in Romania, the analysis of foreign direct investment' orientation to the various branches of the national economy is particularly useful (table no. 1).

Table 1. Foreign direct investment stock in Romania by branches of national economy, during 2007-2010

Year	2007		2008		2009		2010	
	Value (euro million)	% of total	Value (euro million)	% of total	Value (euro million)	% of total	Value (euro million)	% of total
TOTAL, of which:	42770	100.0	48798	100.0	49984	100.0	52585	100.0
Industry	17409	40.7	20138	41.3	20680	41.4	23093	43.9
Electricity, gas and water	1292	3.0	2744	5.6	2904	5.8	3865	7.4
Professional, scientific, technical and administrative activities	-	-	1617	3.3	2299	4.6	2560	4.9
Agriculture, forestry and fishing	-	-	707	1.4	552	1.1	1068	2.0
Trade	5970	14.0	6060	12.4	6164	12.3	6519	12.4
Buildings and real estate	3329	7.8	6155	12.6	6453	12.9	4746	9.0
Hotels and restaurants	270	0,6	181	0.4	213	0.4	417	0.8
Financial intermediation and insurance	9961	23.3	3283	6.7	9510	6.5	10055	19.1
Information and communications technology	2784	6.5	10026	20.5	3235	19.0	3081	5.9
Transport	529	1.2	500	1.0	684	1.4	788	1.5
Others	578	1.4	131	0.4	194	0.4	258	0.5

Source: National Bank of Romania and the National Institute of Statistics - Foreign direct investment in Romania 2008 - 2011

During 2007-2010, foreign direct investment were located mainly in industry; they registered a slight increase in terms of their share in total in each of the analyzed years. The industry ranks the first position among the foreign investors globally but with a lower share of around 10 percentage points. The option of foreign investors for industrial activities is explained by the higher and stable profitability existing, commonly, in this economic sector. The second position is held by foreign direct investment in the financial intermediation and insurance. During the boom in the Romanian economy, the financial intermediation and insurance attracted almost a quarter of foreign direct investment. Reducing liquidity in international financial markets and banks reluctant to lend has generated a significant decrease in foreign direct investment located in financial intermediation and insurance in 2008 and 2009. The level of these investments in 2010, close to that registered in 2009 demonstrates the increasing confidence of foreign investors in the potential of this sector. The urgent need for financing some areas of economic activity (roads, agricultural production, etc.) and encouraging prospects for the development of the insurance market will keep growing interest of foreign investors for financial intermediation and insurance. Whilst there was a downward trend as a result of contracting domestic demand, foreign direct investment located in trade occupies an important position. This has been generated by the expansion of retail trade and preserving profitability by large retailers who took advantage of the competitive problems in the marketing of food (see Competition Council reports 2008-2009). During 2008-2009, foreign direct investment in buildings and real estate had relatively high shares in total as a result of the stimulus generated by construction works for the public investments co-financed by the structural and cohesion funds. Foreign direct investment in agriculture remained at very low levels despite significant agricultural potential of Romania.

We observe that foreign investors prefer to invest in economic sectors that provide a quick return on invested capital and generate a certain stability of financial flows, because of their particularities.

The high share of FDI located in industry in total requires a separate analysis of them. During 2007-2010, the manufacturing sector has attracted highest foreign direct investment (over 30% of total). From the point of view of level of interest, there are important differences between industrial activities (table no. 2).

Table 2. Foreign direct investment stock in Romania by industry, during 2007-2010

Year	2007		2008		2009	2010	2007	2008
	Value (euro million)	% of total	Value (euro million)	% of total	Value (euro million)	% of total	Value (euro million)	% of total
TOTAL, of which:	42770	100.0	48798	100.0	49984	100.0	52585	100.0
Industry	17409	40.7	20138	41.3	20680	41.4	23093	43.9
Mining	2046	4.8	2158	4.4	2221	4.5	2388	4.5
Manufacturing:	14071	32.9	15236	31.3	15555	31.1	16840	32.0
- foods, drinks and tobacco	2207	7.5	2210	4.6	2058	4.1	2081	3.9
- cement, glass and ceramics	1511	3.5	1762	3.6	1629	3.3	1663	3.2
- wood inclusive furniture	1023	2.4	891	1.8	962	1.9	1013	1.9
- computer and electronic product	818	1.9	689	1.4	690	1.4	840	1.6
- machinery and equipment	537	1.3	967	2.0	943	1.9	950	1.8
- metallurgy	3219	7.5	3391	6.9	2577	5.2	2777	5.3
- means of transportation	1546	3.6	1932	4.0	2373	4.7	2589	4.9
- processing oil, chemistry and plastic	1870	4.4	2115	4.3	3132	6.3	3615	6.9
- textile, clothing and leather	737	1.7	794	1.6	717	1.4	835	1.6
- others	603	1.4	485	1.1	474	0.9	477	0.9

Source: National Bank of Romania and the National Institute of Statistics - Foreign direct investment in Romania 2008 - 2011

Foreign direct investment located in most of manufacturing activities registered a downward trend during 2007-2010. The most significant decreases can be observed in the food, drinks and tobacco, processing oil, chemistry and plastic and metallurgy. The economic crisis has affected much more the foreign direct investment located in sectors and branches with low and medium-level technology.

#### 4. Analysis of foreign direct investment stock in Romania by region/ country of origin

The country membership of the European Union made it possible for Romania to attract investors from this region. Foreign direct investment from EU countries accounted for more than 80% of the total, with an increasing trend during 2007-2010 (figure no. 1).

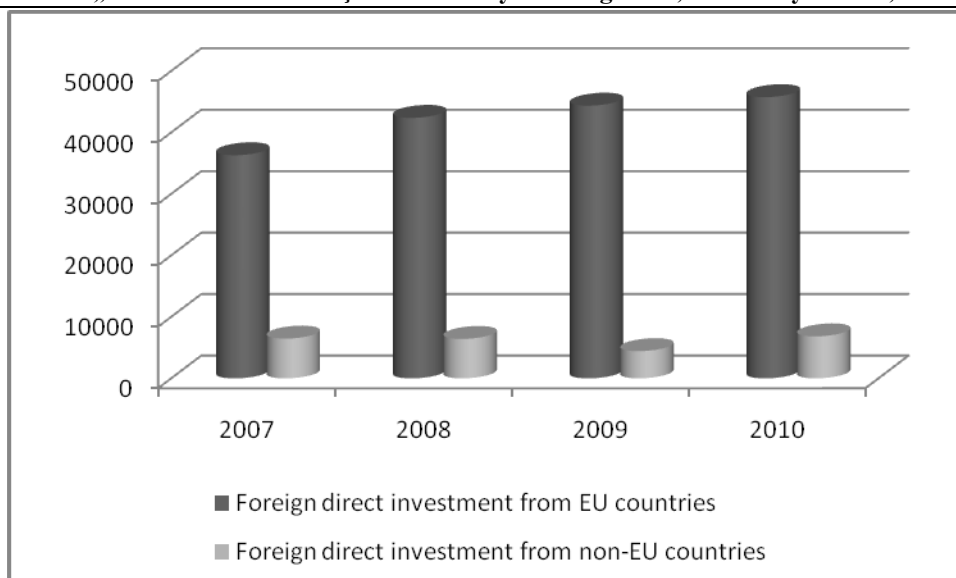


Figure 1. Foreign direct investment stock in Romania by region, in 2007-2010

Top 5 countries by share of foreign direct investment stock as of 31 December 2007 were: Austria (21.4% of total stock at the end of 2007, down from 23% in 2006), the Netherlands (16.3%, down from 17.1% in 2006), Germany (11.7%, up from 10.1% in 2006), France (8.8% vs. 8% in 2006) and Greece (7.5%) which maintain its position in 2006 (figure no. 2).

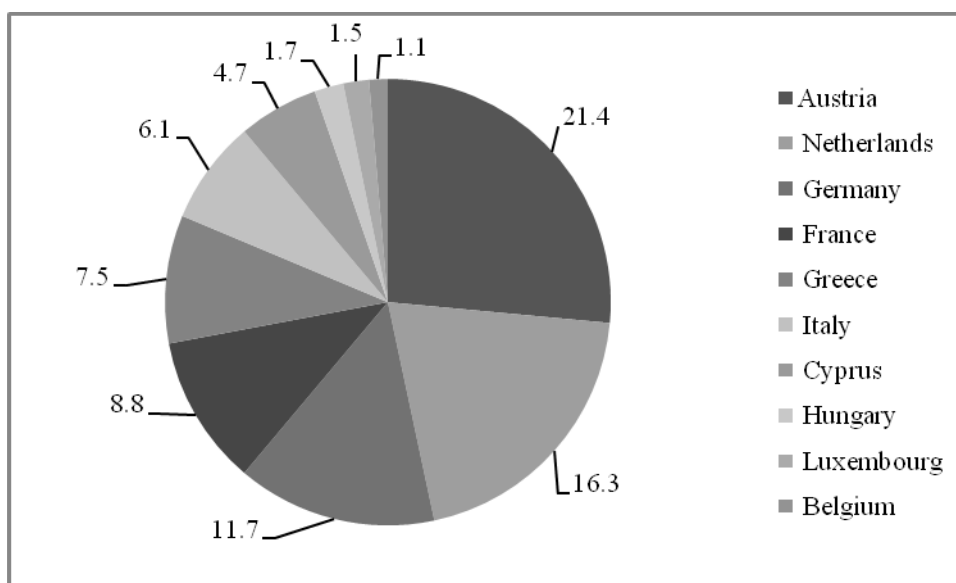


Figure 2 Foreign direct investment stock by country of origin, in 2007

Top 5 countries by share of foreign direct investment stock as of 31 December 2008 were: Austria (18.8% of total stock at the end of 2008, down from 21.4% in 2007), the Netherlands (17.2%, up from 16.3% in 2007), Germany (15.4%, up from 11.7% in 2007), France (8.8%) which maintain its position in 2007 and Italy which of to 7.3% in 2008, up from 6.1% in 2007, thereby replacing the Greece in the hierarchy of top 5 countries by share of foreign direct investment stock (figure no. 3).

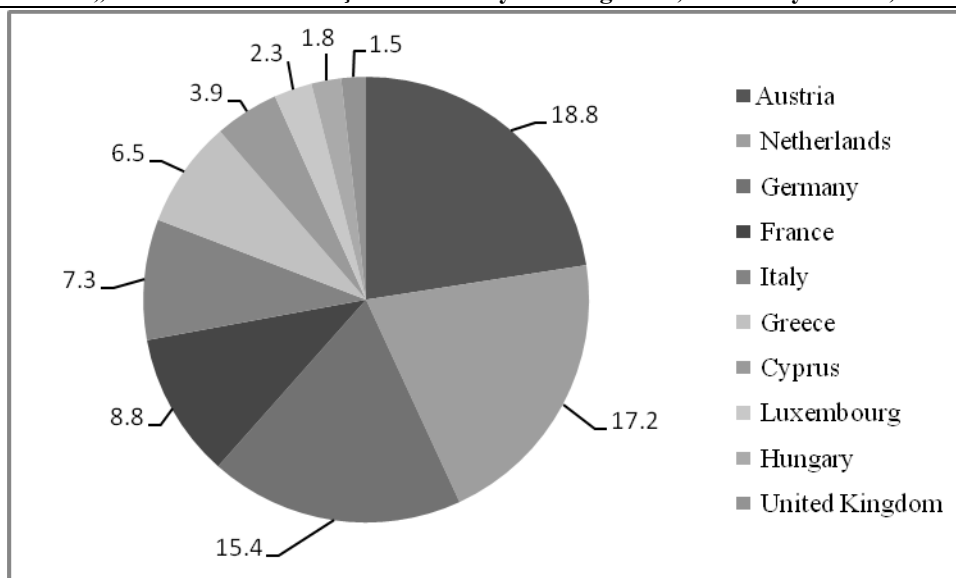


Figure 3 Foreign direct investment stock by country of origin, in 2008

Top 5 countries by share of foreign direct investment stock as of 31 December 2009 were: the Netherlands (21.8%, up from 17.2% in 2008), Austria (18.1% of total stock at the end of 2009, down from 18.8% in 2008), Germany (13.4%, down from 15.4% in 2008), France (8.5%) which maintain its position in 2008 and Greece with a share of 6.6%, the same as in the previous year (figure no. 4).

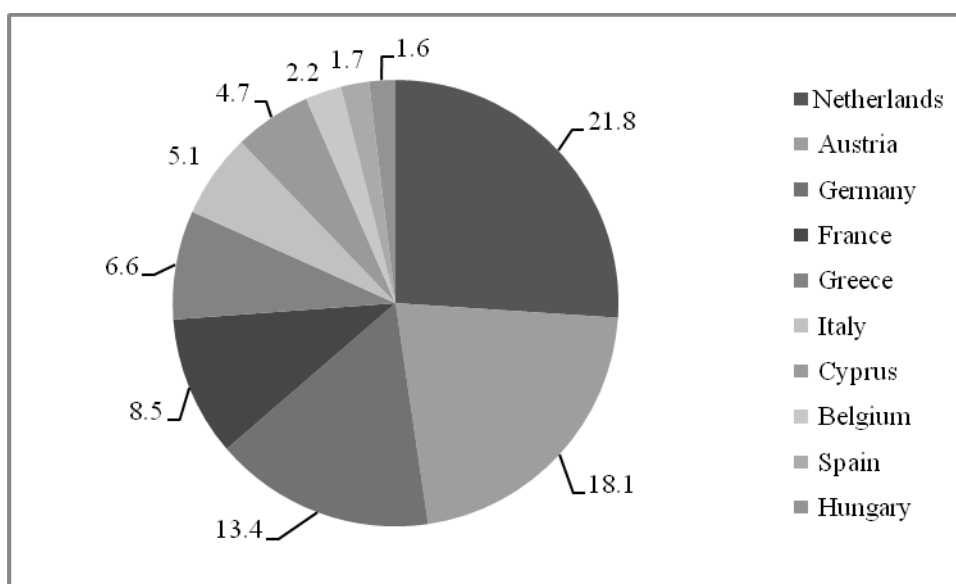


Figure 4 Foreign direct investment stock by country of origin, in 2009

Top 5 countries by share of foreign direct investment stock as of 31 December 2010 were: the Netherlands (20.7%, of total stock at the end of 2010), Austria (17.8%), Germany (12.2%), France (8.3%) and Greece (5.7%); the same hierarchy was registered in 2009 (figure no. 5).

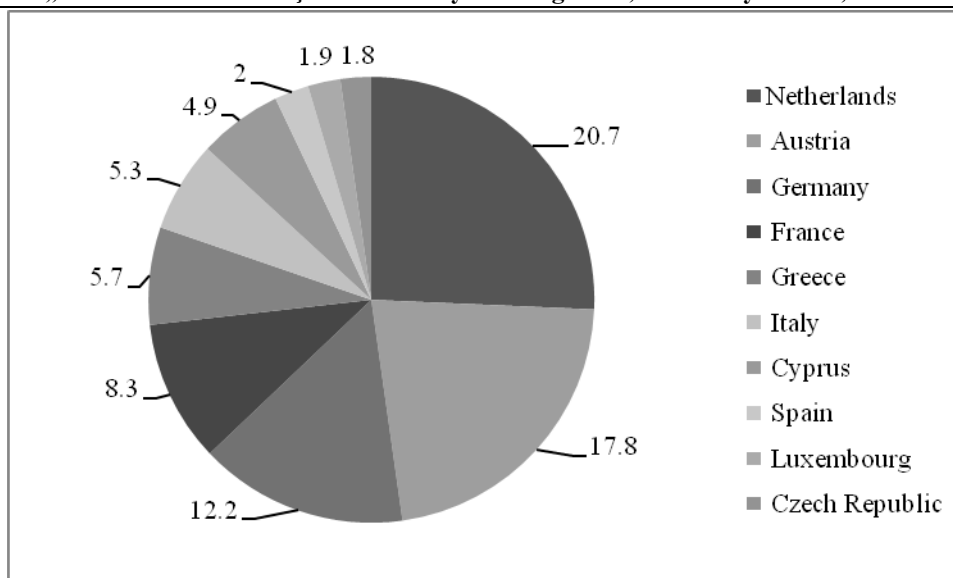


Figure 5 Foreign direct investment stock by country of origin, in 2010

3 of European Union countries (Netherlands, Austria and Germany) are countries of origin for more than 50% of the foreign direct investment stock in Romania during 2007-2010.

## 5. Conclusion

The structure of foreign direct investment stock in Romania by branches of national economy is similar to the structure of global foreign direct investment flows by sector. Compared with the global situation, in Romania there is a higher share of foreign direct investment located in the service sector.

During 2007-2010, foreign direct investment stock in Romania has increased, but the much lower growth rate from the previous period has no longer able to sustain the GDP growth - heavily influenced by the international economic crisis. The structure of foreign direct investment stock by branches of national economy and industrial activities has not changed substantially, compared to the period before the economic crisis in Romania. Foreign direct investment stock in Romanian agriculture grew very least, even if agricultural prices has increased globally.

The privatization process had an important role in attracting foreign direct investment in Romania, in the years before the economic crisis. The minority or majority privatization of state companies, planned for 2012-2013, will boost investment inflows from abroad, because public companies on the list of priorities for privatization (Transelectrica, Transgaz Medias, Medias Romgaz, Hidroelectrica and Nuclearelectrica, Maintenance Branch and Energy Services "Electrica Serv" and so on) are very attractive for investors.

Because a small number of European Union countries are the source of most foreign direct investment in Romania, we can say that the investment process in our country is dependent on the economic situation in those countries. The geographical diversification of foreign direct investment in Romania by attracting investors from Asia, North America should be a priority for the Romanian authorities.

## 6. References

- [1] National Bank of Romania and the National Institute of Statistics - Foreign direct investment in Romania, 2008 - 2011;
- [2] Ivan, Mihail Vincențiu, Iacovoiu, Viorela, *Rolul investițiilor străine directe în contextul obligativității îndeplinirii criteriilor de convergență*, Studii Financiare - Probleme financiare actuale, nr. 4, 2008;
- [3] Ministry of Economy and Trade - Sectoral Operational Programme "Increase of Economic Competitiveness", 2006;
- [4] Pirtea, Marilen, Miloș, Laura, *Investițiile străine directe - determinant principal al creșterii sustenabile în România?*, Analele Universității "Constantin Brâncuși" din Târgu Jiu, Seria Economie, nr. 3, 2009;
- [5] Pop, Fanuta, Achim, Monica, *The Analysis of the Romanian Business Environment in the Context of the Adherence to the European Union*, International Conference on Emerging Economic Issues in a Globalizing World, Izmir, 2008;
- [6] Popa, Raluca Andreea, Crăciun, Matei, *Decizia de a investi și creșterea economică. Cazul României*, Economie teoretică și aplicată, nr. 8(561), 2011;
- [7] Stancu, Stelian, Constantin, Alexandra Maria, *Direct foreign investments impact on Romania's national economy*, Studii și Cercetări de Calcul Economic și Cibernetică Economică, nr. 3-4, 2011;

- [8] **Vintila, Denisia, Zaharia, Rodica**, *Foreign direct investments and economic growth in Romania*, 7th International Scientific Conference “Business and Management 2012” May 10-11, 2012, Vilnius, Lithuania;
- [9] **UNCTAD** - World Investment Report 2008-2012.