ASPECTS OF FOREIGN DIRECT INVESTMENT IN THE ROMANIAN ECONOMY

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Abstract

In all the factors on which growth and economic development depend, investments play a particularly important role through the function of capital accumulation and component of aggregate demand. Investment projects lead to the increase of the fixed capital stock, being the main element of the economic development. At the same time, the employment rate is positively influenced and rising living standards are increasing.

Moreover, foreign direct investment has the role of bringing significant benefits to host countries in the form of capital flows, technology transfer, strengthening of purchasing power, and last but not least, deepening the links with the world economic environment, in globalization course.

This paper aims to highlight the role and importance of foreign direct investments in the Romanian economy and to present a series of characteristic aspects of them.

Keywords: *foreign direct investment, economic growth, capital flow, economic performance*

Classification JEL: *F21, F43*

1. Introduction

Foreign direct investment (FDI) is a long-term economic relationship involving the long-term interest of an investor in an economic entity located in a country other than that of the investor. FDI at the same time implies the real possibility for the foreign investor to control and exercise a high degree of managerial influence in the entity subject to the investment.

According to the National Bank of Romania, a direct foreign investment implies a lasting investment relationship between a resident entity and a non-resident entity; as a rule, involves the exercise by the investor of significant managerial influence in the undertaking in which he invested.

As such, FDI are an complex international flows that include financial, technological, managerial and organizational expertise that overlap the long-term interest and entrepreneurial control of the firm or the physical investor with the aim of conducting productive activities in an economy other than the one in which that firm or person is resident. [1]

Depending on the contribution of foreign capital flows to foreign direct investment enterprises, we distinguish:

- greenfield investments involving the establishment of enterprises by or together with foreign investors (zero-on-investment);
- investments through mergers and acquisitions involving the full or partial take-over of enterprises by residents by foreign investors;
- business development, which can be achieved by increasing the capital holdings of foreign investors;
- restructuring of enterprises by financing by foreign investors, through capital injection, of loss-making enterprises, with a view to their profitability.

From the perspective of the impact of investments on host economies, the economic performance of the host country is more likely when foreign investment takes place through greenfield investments and capital expansion compared to FDI through acquisitions and mergers, the latter having a significant impact on economic variables such as production value, employment, turnover, etc., only if the acquired company is undergoing a major restructuring operation.

Generally, foreign direct investment (FDI) is an important factor in economic growth, including in times when economic stability is at risk and the economy is threatened by recessionary times. They should not be seen only as a flow of capital, but also as an important provider of technology, knowledge, organizational practices that stimulate and generate economic growth. Foreign investors impose their own way of working the company they are developing and bringing new technologies that increase employee efficiency and company competitiveness. These beneficial effects propagate across the chain of companies involved in building a product or service that adapts to survive on the market. Also, foreign direct investment is characterized by long-term stability - hence an investor who has set up a new company will not give up its investment so easily, even in declining economic times.

2. Factors of influence of FDI

The decision of a multinational company to enter a new market is based on a set of factors that generally concern: resources, markets, efficiency and strategic assets.

According to Dunning's eclectic theory, a company that wants to invest its capital in another country, it takes into account:

- the extent to which the firm has property advantages over firms of other nationalities in the markets where it is or intends to penetrate;
- the degree to which the company perceives it to be in its best interest to add value to property advantages instead of selling them - internalization advantages;
- the extent to which the company's interests are satisfied due to the existence of localization advantages;
- the extent to which the company considers that production abroad converges with its long-term strategy.

However, the existence of potential and dynamic potential markets as well as the possibility of cost reduction, which would allow large corporations to follow expansion strategies, are necessary but not sufficient in themselves for them to adopt the location decision in a particular country. Thus, substantiating the location decision in another country is based on a number of factors, such as:

- economic and political stability (price stability, predictability and legislative stability, corruption and bureaucracy level, etc.) that determine the quality of the business environment;
- the degree of economic and social development of the economy (level and evolution of GDP per capita, level of technology, degree of innovation, size of population incomes, purchasing power, etc.);
- tax system (tax level, tax incentives for FDI);
- the available workforce (labor cost, training and qualification level of the workforce, the quality of the human resource, which in a broader sense also depends on attitude towards work and working practices, labor productivity, etc.);
- infrastructure quality (transport, telecommunications, financial services, etc.);
- endowment with natural resources;
- the proximity of providers and cluster networks, etc.

Certainly, however, the economic and social transformations to which all countries are subject as a result of the globalization process are continually generating new determinants of FDI. They are in constant dynamics, both because of changes in general business and implantation strategies abroad, especially for multinational firms, as well as economic and social policies and the attitude of the governmental authorities in the host countries to FDI.

3. FDI in Romania

Foreign direct investment is an important source of external financing for any country, regardless of its level of development, with direct impact on economic growth.

In the period after 2007, our country attracted significant foreign direct investment flows and the highest level of the FDI balance was recorded, and Gross Domestic Product peaked in 2008, just before the effects of the economic crisis -financiare. The significant increases in the mentioned period were also due to the fact that Romania acquired the status of EU member state, in the context of which due to the investment climate as well as the advantages offered by the market and the geographical position of our country, of attraction in the eyes of investors.

Membership of the European Union and NATO, the market economy and liberal democracy are just a few reasons why foreign investors choose Romania. Moreover, Romania is a fairly large market with an advantageous geographic location and a well-prepared and relatively inexpensive workforce.

At the level of 2017, in Romania, there was a contribution of FDI of 4.797 million euros, of which 3.968 million euro is a contribution to the direct capital of foreign direct investors in Romanian enterprises, and 829 million euros is the net credit of direct foreign direct investment enterprises the relationship with foreign direct investors and companies within their group. [7]

This level of FDI is the highest value recorded in the last nine years in Romania. (Fig. no.1)

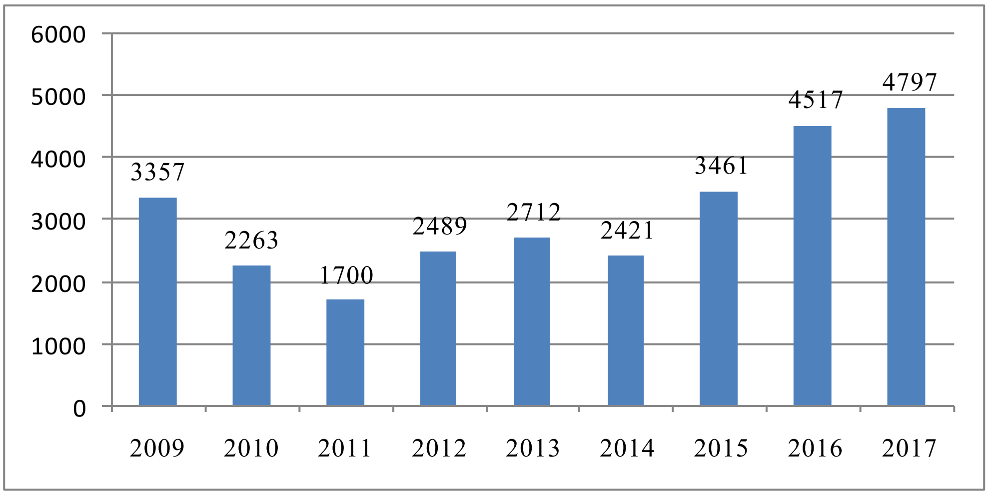

Figure no. 1. Evolution of FDI flows in 2009-2017 (mil.euro)

Source: processing based on BNR data

The net FDI flow in 2017 was mainly orientated towards the manufacturing industry, where the main foreign direct investment activities were crude oil processing, chemicals, rubber and plastics, transportation and metallurgy. Other activities that attracted a significant amount of direct investment were financial intermediation and insurance, construction and real estate transactions, as well as trade.

Concerning the attraction of foreign direct investments by the development regions, we can see that the largest share of FDI is oriented towards the Bucharest-Ilfov development region, followed by the districts of Central, West and South-Muntenia - Fig. no. 2

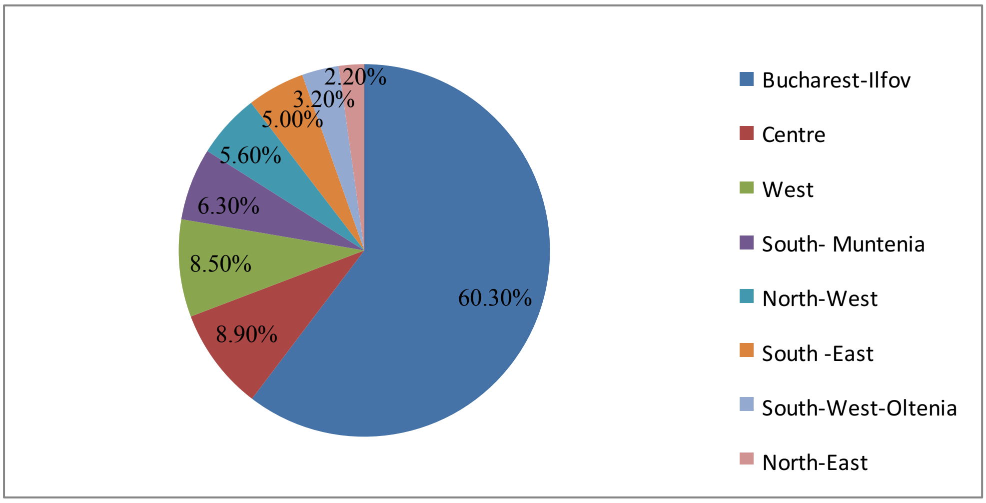

Figure no. 2. Share of FDI by Development Regions (2017)

Source: processing based on BNR data

The share of FDI by development regions basically highlights the level of economic development of the regions as well as the living standards of the population in those areas.

The Center and West regions are recognized for FDI in industry, especially in the car, due to border proximity, which reduces the cost of transporting products. The low share of FDI in the North-East Region is mainly due to the low infrastructure quality, which isolates the region from the relationship with the rest of the EU and implicitly from activities involving long-distance transport. Also, the region is predominantly agricultural, and FDI in this sector is not very high.

Among the most developed counties, which attracted most foreign direct investments, are: Bucharest, Ilfov, Timis, Prahova, Brasov, Constanta.

As for the main countries of origin of foreign direct investment, we notice that in the previous year, the largest volume of FDI came from the Netherlands, followed by Germany, Austria and Italy. - Fig. No.3

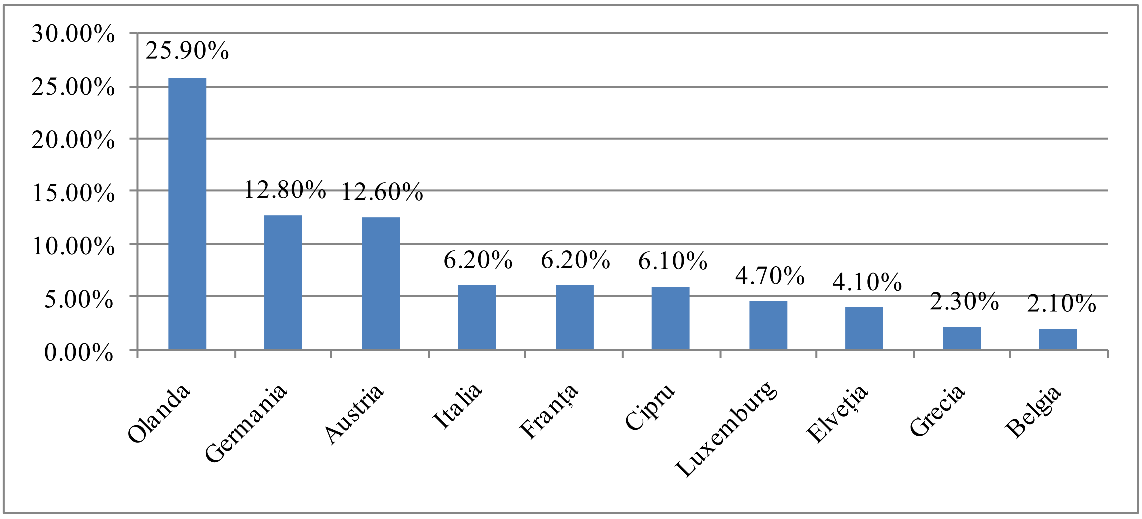

Figure no. 3. Distribution of the FDI balance on the first 10 countries of origin on 31 December 2017 (% of total FDI)

Source: BNR

It is also noticed that 90% of the total FDI stock is held by EU member states, thus creating a high dependence of FDI on the economy of the European Union.

Of the total direct investment in Romania, the Netherlands owns over 25% of them, with consistent investments being made by Unilever, ING, ABN AMRO, Philips, Damen Shipyards Group, KPMG, Heineken, SPAR, Friesland, Verder Group, TNT, Golden Tulip Hotels, KLG (Kuijken Logistics Group), Transport Center, etc. Dutch investments were mainly made in areas of activity such as IT, production and logistics, milk processing, banking, etc.

Germany is an important trading partner of our country, the contribution to Romania's economic growth being substantial. The main investment sectors of German companies are: automotive, metallurgy, commerce, plastics, IT, financial services, the main investors being Metro, Praktiker, Kaufland (Group Lidl & Schwarz Group), Selgros, Billa, Tengelmann (Plus), E.ON Ruhrgas, Steilmann, Linde, Heidelberger Cement (CarpatCement), Siemens, Dr. Oetker, etc.

Austria ranks third in terms of FDI in Romania, being one of the country's main trading partners since 1990. The main Austrian investors in our country are OMV, Raiffeisen, Schweighofer, Strabag, Porsche Romania, Bramac Baumit Wienerberger, Volksbank, Vienna (owns Omniasig and Unita). In the banking field, the arrival of Erste Bank in our country and the takeover of BCR became one of the most important privatization operations in Romania; at the same time, Raiffeisen Bank holds a leading position among the investors in this sector.

Many Austrian companies are interested in investing in real estate by buying land near roads, major transport hubs, investing in the automotive industry, metallurgical industry, equipment production, food industry, etc.

From the perspective of FDI with Italian capital, the main investors are: Italstrade, Unicredito Italiano, Radicifibres, Butangas, Pirelli Telecom, Tenaris Dalmine, Radici, Natuzzi, Zoppas. The sectors of activity in which investments of Italian origin are concentrated are: textile, construction, commerce, services and agriculture.

The main investors of French origin are: Orange, Société Générale, Lafarge Romcim, Renault-Dacia, Vivendi Environment, Carrefour, Auchan and Alcatel.

From the operations included in the FDI, *greenfield projects* show a high level of confidence from a foreign investor, as they represent a medium and long-term investment and are also considered as those that contribute most to the economic performance of the host country.

Thus, from the perspective of greenfield investments, we notice that in the period 2005-2015 their nominal value increased steadily, even during the crisis, albeit with lower rhythms. As a share of the total FDI, greenfield investments were permanently over 47% during the economic crisis and thereafter. In 2015, approximately 57% of the total FDI (€ 36.5billion) were new investments. [6]

At 2017, greenfield investments contributed € 77 million to the investment inflow into equity shares of FDIs, and mergers and acquisitions by € 213 million. [7]

From the point of view of the distribution of the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry (30.9% of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: construction and real estate transactions, trade and professional, scientific, technical and administrative activities and support services.

In terms of localization, most foreign direct investment in greenfield enterprises is concentrated, like the FDI, in the Bucharest-Ilfov region (60.1% of the FDI balance in greenfield enterprises), followed by the Central Region with 11 , 9%, the West region by 10.6% and Northwest with 6.3% of the FDI balance in greenfield enterprises.

In relation to the economic performance of foreign companies in our country, there is a high level, if we consider some aspects such as:

- ✓ about 70% of Romanian exports are made by FDI companies, which has a positive impact on Romania's foreign trade;] manufacturing is the main activity with a trade surplus, but surpluses are also recorded in FDI enterprises that have as their main activity electricity, gas and water;

- ✓ the average net salary paid by foreign companies was constantly higher than the national average (but sometimes lower than the large state-owned companies);
- ✓ labor productivity is higher in companies with foreign capital (even twice as high);
- ✓ gross operating profit per employee is double for foreign companies.

5. Conclusions

Foreign investments in Romania have contributed significantly to the modernization of the national economy after 1989 and to its integration into the European economy and international production chains. Romania has competitive sectors at the regional and even global level, has been integrated into the international production circuit and exports high quality products. All of this is largely due to the presence of foreign capital that has contributed with funding and know-how and has helped Romania to capitalize on its competitive advantages and well-trained workforce.

Our country constitutes a pole of investment attraction for countries from all over Europe and from all over the world mainly due to its geographic position and resources. In our country the majority are the European investors.

The contribution of FDI to Romania's economic growth and development over the past few years is undeniable, through its contribution to technological development, export growth, know-how imports. Our country has captured the interest of foreign investors, who have made investments here - offering jobs, supporting consumption and developing production capacity.

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