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THE FOREIGN DIRECT INVESTMENT IN THE ROMANIAN AGRIFOOD PRODUCTION

Case study

Keywords
Foreign Direct Investment,
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Romania

JEL Classification
M10, Q30

Abstract

The foreign direct investments, performed in a transparent manner and for long enough periods of time, represent a motor for the development of national economies. The present paper proposes an analysis of the foreign capital involved in the autochthonous agrifood production with a stress on the area of the agricultural and industrial food processing. Apart from the reports of National Bank of Romania, the necessary information regarding the foreign capital in the Romanian agrifood area are scarce and of a general nature. The undertaken analysis pinpointed predominant speculative aspects of the foreign investments in the agricultural lands in Romania as well as the main circumstantial character of the foreign capital involved in the agrifood processing. In crisis situations or in the absence of some profitable enough opportunities, the foreign investors leave the Romanian market, migrating towards more economically attractive areas. The bringing into effect of some mutually beneficial contracts, that allow the protection of the autochthonous capital, i.e. durable foreign investments and profitable for the national economy must be a priority for the Romanian authorities.

Introduction

Investments are important elements in the development of the national economy and in the economy principles based market functioning. They represent the motor of the economic activity which targets the production of goods and indispensable services for a viable economy.

OECD (2008) defines Foreign Direct Investment (FDI) as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The reports of the Romanian National Bank BNR (2004-2015) specify that the Foreign Direct Investments (FDI) implicate significant managerial influences from the part of the investors in the economical units they invested in. The components of the foreign direct investments are the capital holdings, the reinvested profit and the financial instruments of the nature of the debt between investors or the groups they pertain to and the enterprises they invested in, respectively. According to WBO (2008), FDI creates jobs, optimises resources allocation, permits technological transfer and stimulates trade. Colen, Maertens and Swinnen (2008) state that although the effect is heterogeneous, FDI can further contribute to long term poverty reduction, salaries increase on a sector level, and tax revenues increase. In some cases, the foreign investments introduced competitive principles in the industrial and services sectors which were neglected within the centralized economies (Mehedințu, 2003).

Perceived as a main factor of economic growth, FDI are considered to be financial flows which do not generate external debt, being a complement of the autochthonous investments and a significant financier of the current account deficit. The efficiency of FDI depends on their quantity and quality as well as on the areas they are attracted by. They represent the base of the spectacular economic growth of some countries (China, Hong-Kong, South Korea, Singapore, Malaysia). The example of some Eastern and Central European states (Poland, Czech Republic, Hungary) in using FDI demonstrates that they have contributed to the radical modernisation of national economies through the transfer of new technologies, the implementation of advanced business management methods or the reduction of the competitive difference between the new member states of the European Union and the developed countries (Moraru, 2014).

1. Material and methods

The information regarding the foreign investments in Romania was taken from the Reports of the National Bank of Romania and from the World Bank, from the databases of the National Institute of Statistics, the Agency for Payments and Intervention in Agriculture and Land Matrix or from scientific articles. The relevant data was statistically processed and graphically represented and interpreted. The results were compared with the information available in technical literature.

2. Foreign Direct Investments in Romania

According to Anghelache, Anghelache and Angel (2012), a major problem of the transition economies is the attracting of foreign capital. After the change of the political regime in 1989, the participation rhythm of the foreign capital in the direct investments in Romania was a positive one, as a result of the existence of an investment market, of the industrial restructuring, of the development of multiple services foundation or of the attractive legislative framework which provided guarantees to the foreign investors. The FDI phenomenon registered the most stressed dynamics in the last decade of the last century, the peak being reached in 2000. However, the end of the year 2000 brought a confinement of FDI, determined by the global economic evolution and by a series of circumstantial events which negatively influenced the movements of the international capital (Georgescu, 2013). In the time interval 2000-2005, the foreign direct investments in the Romanian industrial sector were relatively reduced, the autochthonous market being perceived mainly from the perspective of some potential investments and less from the perspective of momentary opportunities (Birsan and Buiga, 2008). The Romanian FDI stock was of approximately 60 billion euros in 2014, much beneath the level of Poland (197,5 billion dollars), of Czech Republic (125,2 billion dollars) or of Hungary (84,4 billion dollars), considerably smaller countries if compared with Romania. In 2014, the value of this stock represented approximately 40% of the Romanian GDP, a level close to the average UE value (41,4%) but inferior to smaller state members such as Bulgaria (89,1%) or Hungary (60,4%) (National Institute of Statistics, 2015).

The evolution of the foreign investments flux and of its level for the 2005-2006 time period are represented in figure 1. Thus, for the 2005-2006 segment the total FDI fluxes registered an increase of 74,78%, from 5,183 million euros to 9,059 million euros. According to Moraru's studies (2013), the positive evolution was the result of the great privatizations registered in Romania in the banking and industrial (petrol and petrochemistry, metallurgy, machine manufacturing) fields which also continued for the next time segment, 2007-2008. The year 2008 marked the maximum volume of foreign direct investments attracted in Romania, their value being of 9.496 million euros. By contrast with the previous years, the time frame 2009-2011 brought a significant decrease of FDI as a result of the international economic and financial crisis, registering the lowest value (1.815 million dollars in 2011). The last period brought a fluctuant evolution of the foreign investments in the national economy with a slight increasing tendency but without real consistency (figure 1).

A particular aspect of the FDI enterprise in Romania is described in the research of Zăman et al (2011), where there is highlighted a negative account of the trade balance, an average ratio of 1:2 between the reinvested profit and the expatriated one and an unfavourable impact of energy traders on the Romanian economic competitiveness.

According to Olteanu (2013), the reduction of foreign capital infusions can decisively affect the development of national economies, being thus one of the main causes of the recessions registered in the emergent countries. Therefore, the significant capital fluxes can generate an increase of internal request, national currency appreciation while the decline of the foreign investments leads to the spending of the reserve currency, the contraction of internal absorption and/or national currency depreciation.

3. Foreign Direct Investments in the Romanian Agriculture

The information regarding foreign direct investments in the Romanian agricultural segment begin to be systematized in 2008 via the reports of National Bank of Romania, Direct Investments in Romania, (2004-2016). Approximate dates regarding FDI in autochthonous agriculture for the time interval 1991-2003 are provided by the Report of the World Bank regarding the Romanian food industry (2004), where it is mentioned that in the stated time segment the Romanian agricultural sector benefited from foreign investments of circa 100 million euros.

According to NBR reports, FDI in the Agriculture, Forestry and Fishery area represent approximately 1,10-2,5% from the total FDI in Romania, with almost a doubling of the weight factor in the last years in relation to the reference period 2008-2009. Compared with the value of the foreign capital involved in the agrifood production, the primary agricultural production represented between 20 and 40% of the total. Related to the total of foreign investments in the agrifood production, the area of the agricultural production attracted increasing funds, which doubled in the interval 2007-2014 (figure 2). The investment in the primary production is mainly destined to external partners, the trade balance of the field enterprise with foreign capital being overstock (figure 3). The situation is generalized on a national level, Popa (2012), with the mentioning that in the national hierarchy of the 100 exporters in 2012, 96 are foreign capital companies. The numbers did not change significantly for the year 2014, when from a FOB value of the Romanian exports of 52,5 billion euros, 83,25% were made by the companies with majority or minority foreign capital. The agrifood products, beverages and Tobacco represented approximately 8,5% of the total value of the exports (Pop, 2015). Last year, from the top of the 500 exporters who registered incomes of more than 40 billion euros (75% of the total FOB), 90% of the companies were multinational with foreign capital. Cereals (3,7%) and Tobacco (1,7%) represented the main agricultural raw materials exported along with Tobacco (3,4%) in the context of a decrease registered by the agricultural, forestry and fishery field in the last three years (Workman, 2016).

Although characterised by a relatively reduced level of FDI closely linked with the other two areas of national economy, the agricultural, forestry and fishery branch is the second branch of national economy, after the processing industry, where FID registered an aggregated trade surplus in the evaluated period. The NBR reports take into consideration the exports and the imports of the FID enterprise afferent to the companies with more than 20 employees. The data regarding the export and import in economy as a whole, taken into consideration by NBR in the determining of the relative measurements, are those reported by the economic operators which exceeded the reporting value limits established for the Intrastat statements.

The 2010-2012 time frame is characterised by a strong discrepancy between exports and imports, in the context of some record agricultural productions and of an increase in the international demand of agricultural raw materials. In recent years there can be noticed a decrease of the external trade surplus, with the reduction in value of exports in the circumstance of the dropping of the quoted prices of the agrifood products on the international markets and of the food scandals in which the autochthonous agrifood production was involved (Stanciu et al, 2013). It is assumed that there has been a reorientation of the agricultural producers towards the internal market, favoured by the reduction of the production, the increase of the internal consumption and by the legislative provisions which favour the consumption of autochthonous products. Romania still remains an important exporter of raw materials as well as of end products.

The foreign investments in the autochthonous agricultural area have been focused towards the zootechnic production, the cereal storage and trade and, more recently, towards the agricultural lands, forests or fish farms acquisition. Romania, the fifth country on the communitarian level in terms of agricultural potential with an agricultural area of approximately 14,8 million hectares (arable, pasture and hay field) of which 10 million hectares are arable lands, caught the interest of big investors due to the low prices by way of comparison with the European average. The directing of foreign investors towards the Romanian agricultural lands is influenced by their quality, the low price as opposed to the prices in Western Europe, the shortcomings of the national legislations or by the faulty negotiations of the clauses of adherence to the European Union, considering that the autochthonous farmers have not been prepared to face the competitiveness imposed by the external capital on the land market (Stanciu, 2014a). Despite the fact that, in recent years, there have been massive increases of the prices on the land market, the most demanded being the amalgamated lands with utilities or close to access paths, the trading values are still lower than in the western countries (figure 4). In Germany or France, a hectare of agricultural land has an average price of 30.000 euros, in Holland, 80.000 euros and in Poland, more than 8000 euros.

Like any other areas characterised by a modest economic level, lately, our country has been heavily affected by the phenomenon of acquisition or long term concession lease of agricultural lands, from private or public entities to big companies or domestic or multinational investors. According to the Transnational Institute (2013), the land grabbing phenomenon is a wide international fact that has escalated in recent years on a European level in Romania, Hungary, Bulgaria, Serbia and Ukraine. According to the study, the land grabbing is advanced, and at the moment nearly 50% of the total European agricultural area is in the possession of only 3% of the total of the agricultural landowners. On a national level it is estimated that between 1 million and 4 million hectares are owned and/or are under the control of a foreign capital. The Ecoruralis study (Szocs Boruss, Rodriguez and Srovlanova, 2015), shows that the gradual land grabbing of lands and national natural resources has a negative impact on the trade market and on the liberalization of the agrifood industry, thus, affecting the food sovereignty of Romania and favouring the exodus of rural population.

European companies, Chinese companies or Middle East speculative hedge funds targeted transactions with Romanian lands especially for speculative purposes. Land grabbing is usually followed by the transaction of the agglomerated areas for the benefit of a substantial gain. Translational Institute shows that, although there are no official statistic data in Romania regarding the agricultural lands owned by the foreign capital, it can be estimated that almost 10% of the agricultural area is under the possession of extra community investors and 20-30% is controlled by EU investors. Information regarding the areas transacted in Romania by the big international agricultural companies are kept in the databases of the Land Matrix transactions. According to the data available at http://www.landmatrix.org/en, most companies that invested in Romanian agricultural lands come from Denmark, Italy, Germany, Austria and Lebanon.

A top of the first 100 beneficiaries of the subvention offered by the Agency for Payments and Intervention for Agriculture in Romania (2016) based on the Single Payment Scheme on Agricultural Areas situates on the first positions companies from Romania, followed by investors from Lebanon, Austria or Germany (figure 5). The data do not include the owners of forests or of unsubsidized agricultural lands. The analysis carried out by the author, shows that from the more than 650,000 ha of subsidized agricultural land, over 200,000 ha belong to foreign investors. The hierarchy is dominated by Lebanese investors with almost 9% of the total, followed by companies from Italy, Denmark and Germany.

4. Foreign Direct Investments in food processing

Together with the agriculture production, the segment of the food and beverages production in Romania is strategic in ensuring the national food sovereignty. Yearly, there are produced 8.72 million tons of food products of more than 11 billion euros worth, and 13,8% of them are exported. The added value obtained in the food industry represents almost a quarter of the total of the added value in the processing industry. The cost of the logistic services in Romania for the food products is estimated to be of 2 billion euros, 1.1 billion euros being spent for primary logistics and the rest for secondary logistics. By comparison with the year 2008, in 2015 the exports of food products, beverages and Tobacco tripled, reaching a value of 4.805 billion euros and a share of 8,8% from the total number of Romanian exports (Nițulescu, 2016). According to Nițulescu, who quotes a BMI Research study, the prognosis regarding the evolution of the food and beverages industry in Romania for the next five years are optimistic, for the interval 2015-2019 being estimated an average rhythm of increase of the sector with 5,6%, superior to the Eastern and Central European region, the ascendant evolution being stimulated by the VAT reduction for food.

Although in Romania food processing has been an attractive area for foreign investors, Mereuta (2014) indicates that the food industry still represents yet another of the few sectors where the share of the Romanian capital exceeds 60%.

The interest of multinational companies in the Romanian food industry is determined by the tradition of food processing, the availability and the good price of raw materials, the qualified staff, a market of over 20 million consumers, the price of food (close to the European average) and by the great share of expenses Romanians usually allocate for food from their budget. The Romanian market of food and beverages, the seventh in the European Union and the second in Eastern Europe after Poland, is evaluated at 25,9 billion euros: 20,6 billion euros in the retail sales and 5,3 billion euro in food services.

Gow and Swinnen (1998) show that the presence of foreign investors in the food industry of Central and Eastern Europe had positive effects, the most notable being the increase of efficiency and productivity of the processors, the expansion of major investments, the improvement of the agricultural production as a result of important trade agreements or of the involvement of private capital.

According to the World Bank (2004), in the segment 1991-2003, the national economy received more than 1 billion euros from foreign investments for the privatization and modernization of industry and for the access facilitation on the export markets, respectively. Data regarding the foreign capital in the Romanian food processing industry (Food, Beverages, and Tobacco) are available in the NBR reports (2004-2016).

The FDI balance has a fluctuating evolution in the autochthonous food industry, with a registered maximum in 2007-2008, followed by a decrease caused by the dropping of the capital fluxes and by the withdrawals from the Romanian market. From the total FDI in Romania the investments in food processing situate between 3,65 and 7,07%, with a maximum reached in 2004 (figure 6). At the level of agrifood production, the processing industry remains one of the top choices for the foreign companies, with a participation ranging between 60 and 90% from the external capital.

The food industry does not generate a plus in terms of external trade, the trade balance of processed food products being permanently unstable for the time interval 2010-2014 (figure 7). The multinational companies import significant quantities of semi-products, raw materials or end products, the meat or dairy industry being dependent of imports in a proportion of over 70% (Stanciu, 2014b, Stanciu, 2014c). Although the value of the foreign capital involved is consistent, in terms of cost-effectiveness, contributions and taxes payed to the Romanian state, the foreign capital companies are clearly surpassed by the autochthonous companies that do not export the gains towards the abroad headquarters (Stanciu, 2014a).

Conclusions

The statiscal information regarding the FDI in Romania are brief and unsystematic, with great discrepancies in the data retrieved from various sources. Taking into consideration the importance of the foreign investments for the national economy, the management and the handiness of the statiscal data should constitute a special importance for the economic research. The perspectives of the foreign investments in Romania are uncertain, all the more that since 2008 (the top year of the foreign investments with a share of 11.2% from the value of the total investments in the interval 1991-2012) they have been in a continual fall, except for a small revival in 2009-2010, representing 1.4% of the GDP in 2011, a small value if compared with the values situated between 5-10% of the GDP registered for the interval 2004-2008. Despite the fact that the foreign direct investments represent in general the motor of national economies, in the case of Romania, the foreign capital in the agrifood area produces an important deficit of the external trade balance, ranging between 290 and 650 million euros for the time frame 2010-2014.

As the transactions made in the recent year have demonstrated, the investments in the agricultural lands have a mainly speculative character, most of the capital involved belonging to some international funds of investments which only target market speculation. Some of the measures proposed on the long term would be the avoiding of the excessive dispersion of the food industry units, the unitary coordination on national level, more emphasis on quality and national brands promoting and the expansion of the end products exports.

Finally, it is considered that the presence of foreign companies in Romania is highly dependent on the context of the international market, legislative regulations being required to avoid speculative situations and to favour the reinvestment of the profit in the national economy so that the national economic growth owed to the foreign investors to be sustainable and durable.

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Appendices

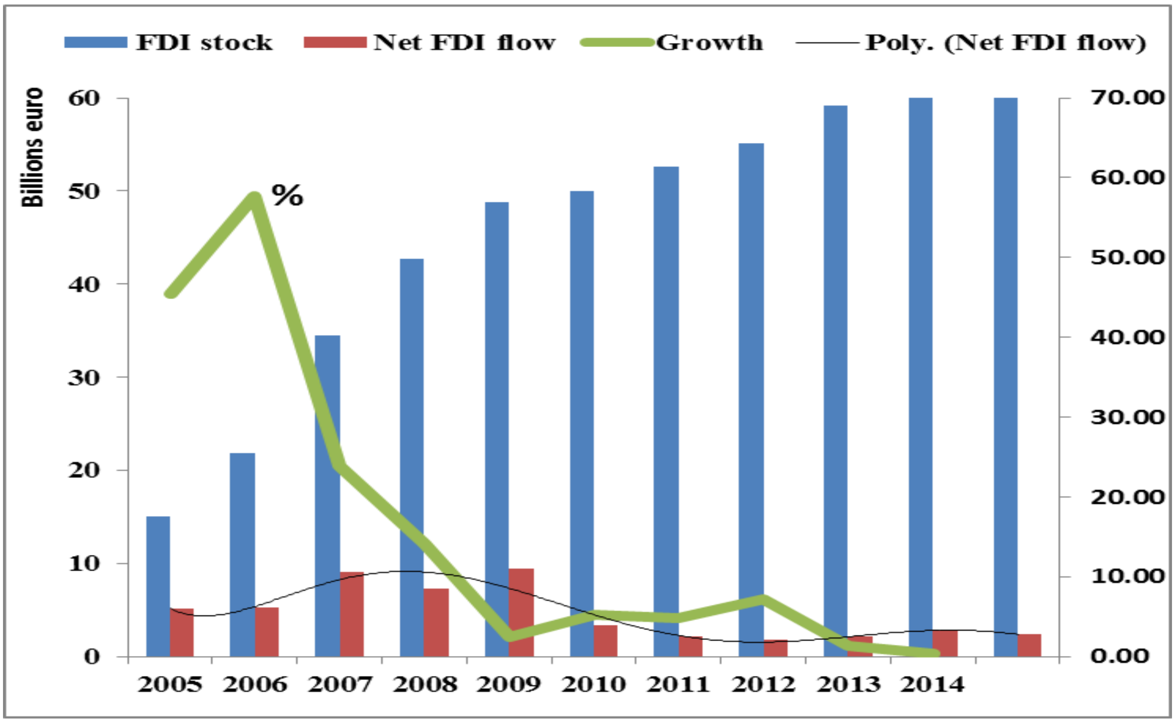

Figure 1. FDI in Romania (billions euro) -
flow, stock and annual growth (%)
Source Author, by using NBR Reports (2005-2016)

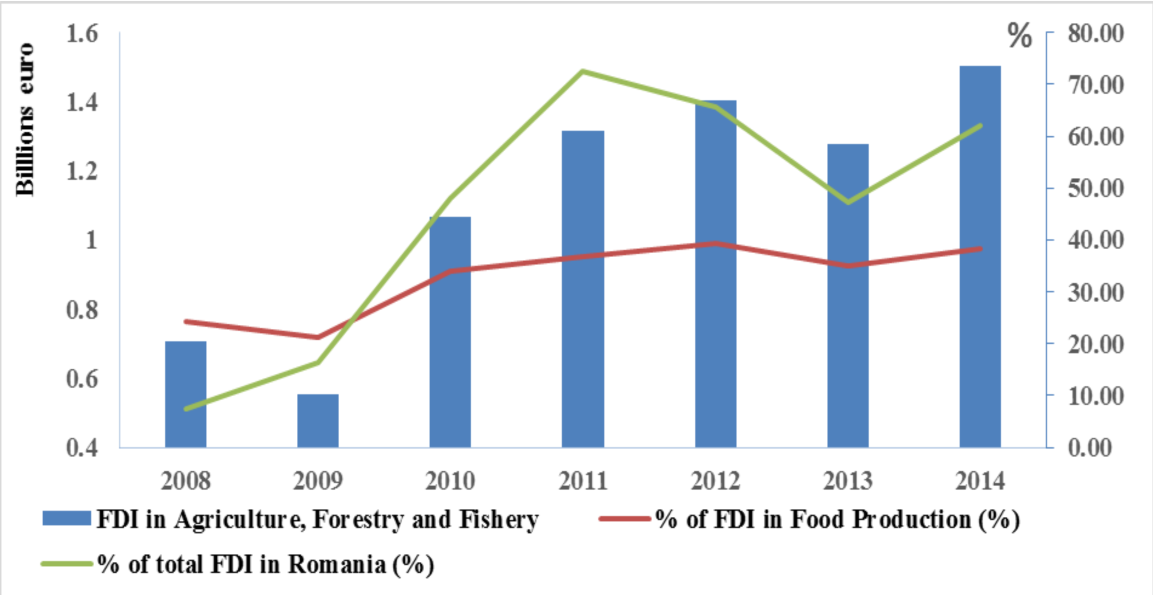

Figure 2. FDI in Agriculture, Forestry and Fishery
Source Author, by using NBR data (2008-2016)

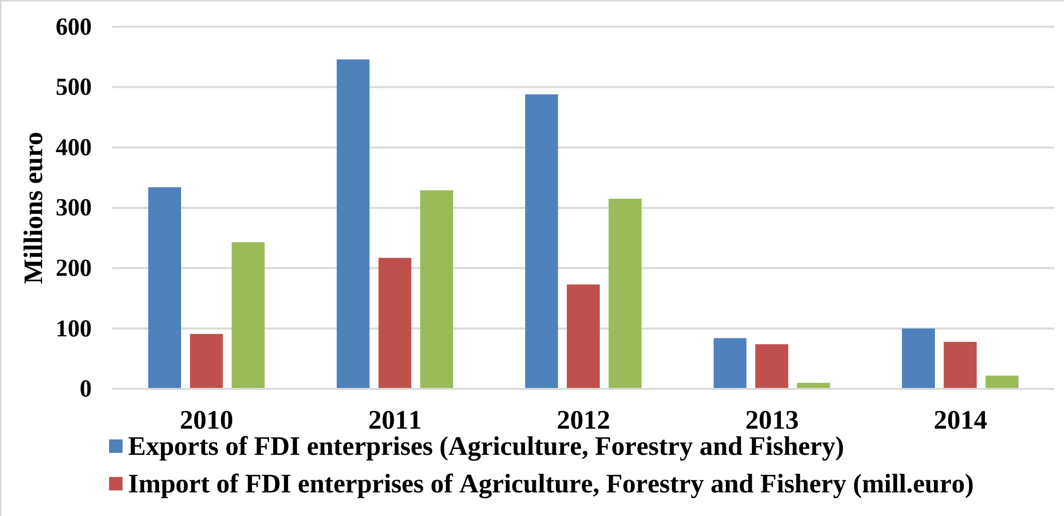

Figure 3. International trade of FDI enterprises in agriculture, forestry and fishery
Source: Author, by using NBR data, 2010-2016

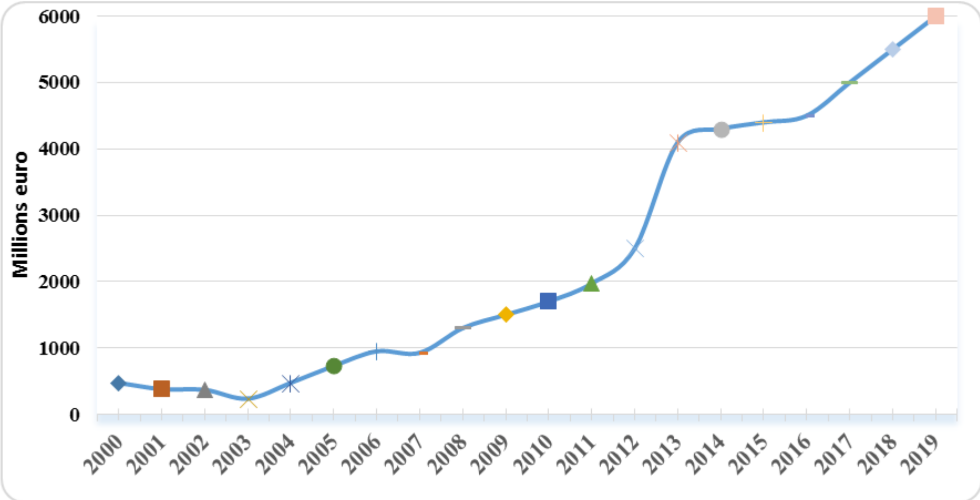

Figure 4. The evolution of prices for agricultural lands (euro/ha)
Source author, by using data from Transnational Institute, 2013

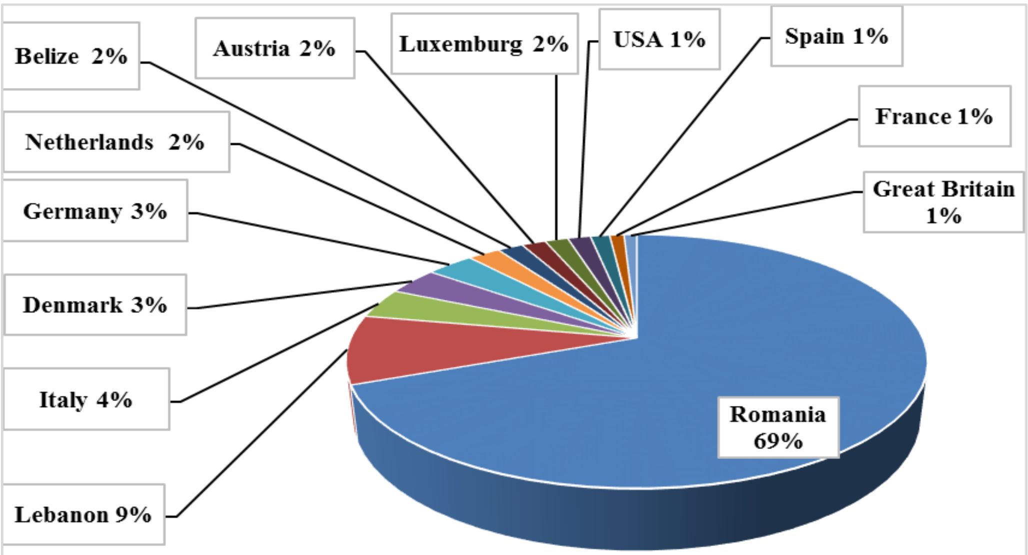

Figure 5. The main beneficiaries of subsidies - direct payments
to agricultural land in Romania
Source Author, by using APIA data, 2016

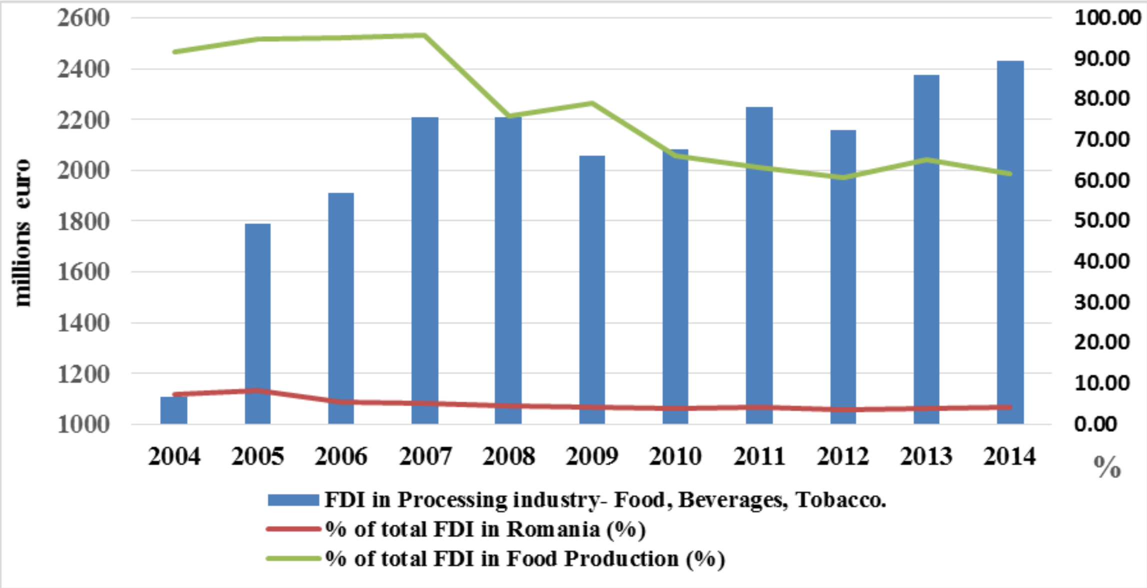

Figure 6. FDI in processing industry - Food, Beverages, Tobacco.
Source Author, by using NBR data (2008-2016)

Figure 7 International trade of FDI Enterprises in Food Processing
Source Author, by using NBR data (2008-2016)