

# FOREIGN DIRECT INVESTMENT IN ROMANIA – STRUCTURAL AND SECTORIAL DYNAMICS

Case study

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## Keywords

Foreign direct investment  
Flows of foreign investments  
Stocks of foreign investments  
Economic sectors

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## JEL Classification

E22, F21, F23

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## Abstract

*The paper analyses the situation of flows and stocks of the foreign direct investment received by Romania in the period 2003-2012 with an emphasis on the crisis and post-crisis periods, investments that are characterized by different trends in different time periods in terms of directing capitals to the economic sectors. There are also considered the fields of economic interest of the foreign investors in our country. The analysis performed in this respect reveals changes from one year to another, in terms of the foreign investors' interest for certain economic activities, especially after the outbreak of the financial crisis in 2008, which resulted in their reorientation within the economic sectors.*

## 1. Introduction

The amplification of the foreign direct investment (FDI) phenomenon attracted worldwide the attention of researchers in the field, aspect that has led over time to extensive and multiple studies analysing the phenomenon of FDI and the effects that this type of investments produce over the economies of the host countries. The effects upon the economic growth have been studied, for example, by Blomstrom, Lipsey and Zejan (1994) [2], Borenstein, De Gregorio and Lee (1995, 1998) [3], [4], Ram and Zhang (2002) [11], Carcovic and Levine (2005) [7], Gheorghie and Muraru (2010) [10] that have demonstrated that there is a strong direct relationship between FDI and GDP of the host countries. De Soisa and Oneal (1999) [9] and Bosworth and Collins (1999) [5] have shown that FDI stimulate the domestic investment, leading indirectly to beneficial effects on growth. On their turn, Campos and Kinoshita (2002) [6], Alvaro, Chanda, Kalemli-Ozcan and Sayek (2002) [1], Carvalho, Geert and Ionara (2010) [8] conclude that the FDI have a decisive role on the countries in which they are located through the contribution of technology, variable that takes into account also the degree of industrialization of the countries receiving FDI. The more a country is highly industrialized and has a labour force skilled and highly qualified, the more the technologies and know-how introduced by the multinational companies through FDI will be higher, resulting in greater benefits on that economy, with direct implications in terms of competitiveness of that country, at a global level.

During the 1991-2013 FDI flows received by Romania had a tortuous path, being influenced by a variety of contextual factors both internal and external to the Romanian economy. This period requires a detailing of the developments of the foreign investments using smaller time intervals.

Since for the period from 1991-2003 the values of FDI flows present low and fluctuating levels, well below the country's potential, the official statistics show detailed data since 2003. Therefore, we will focus on the analysis of the foreign investments received by Romania in the periods that have followed 2003, especially during the economic and financial crisis period and the post-crisis period, respectively 2008-2012.

## 2. Analysis of foreign direct investment flows in Romania

The approaches regarding the accession process to the EU and the signing of the Accession Partnership the beginning of 2003 resulted in increased confidence the foreign investors in the Romanian investment environment. Given that approximately 70% of the direct investments in our country originate from the EU (according to statistics of RNB) [12], especially in the developed

countries of Western Europe, it is understandable the growth from year to year of FDI flows until the impact of global economic crisis in Romania respectively 2009. Basically, it appears that within six years (2003-2008) the foreign direct investments value has multiplied almost five times, respectively approx. 1.2 billion Euros, annually (Table 1 and Graphic 1).

After the year 2008 there are recorded sharp and rapid decline of FDI flows received by Romania, situation which slightly recovers only in 2012 with a slight increase in values (Graphic no. 1). We notice that the two components of FDI, respectively the net shareholdings and the net credits follow a downward path, being directly correlated up to the level of 2011. The net shareholdings decrease until 2011, with a slight recovery in 2012. The net credits decrease at a much faster rate which shows the retention of companies to contract credits in foreign markets in times of crisis because of the uncertainties of the financial markets. In 2012 the credit growth exceeds the increase in net shareholdings, while the improvement value of the two components suggests the continuation of the post-crisis investment process.

## 3. Analysis of foreign direct investment stocks in Romania

The cumulative balance of FDI during 2003-2012 shows different growth rates in time intervals. We distinguish three periods, namely:

- 2003-2008, with a rapid pace of expansion from 9662 mil. Euro to 48,798 million Euro, which presents increases of approx. 15% -20% per year,
- 2009-2011, this records a cumulative stock of FDI with very small increases of approx. 2.5% -5%,
- 2012, the year of a slight recovery of the investment phenomenon, with an increase of 7.2% (Table 2 and Graphic 2).

By making a comparison between the balances recorded in 2010, the peak year of the economic crisis encountered in Romania, and the 2012, we observe the following:

- The final FDI stock corresponding to 2010 was 52,585 million Euro, with an increase of 5.2% compared to the stock at the end of 2009, while the final stock of 2012 was 52,585 million Euro, showing an increase of 7.2% higher than the final stock for the year 2011; this beneficial aspect leads to the conclusion that the investment environment in Romania has recovered following the end of the crisis;
- The shareholdings to the social capital (including the reinvested profit) of the companies that have FDI recorded at the end of 2010 the value of 35529 mil Euro, representing 67.6% of the final FDI stock, while at the end of 2012 it had a value of 39,266 mil. Euro, the percentage representing 66.4% of final stock at the end of the year;

- Total net credit received by the multinationals from the foreign investors, including within the group, amounting to 17 056 mil. Euro has a share of 32.4% of the final FDI stock, and in 2012 total net credit of 19 860 mil. Euro represents 33.6% of the final stock.

In conclusion, we can state that during the crisis period and post-crisis both shareholdings and net credits (including the reinvested profit) have increased at a very slow pace. The exception is recorded in 2010 the peak year of the financial crisis, which has even a slight regression in terms of shareholdings to capital decreasing from 35 600 mil. Euros to 35,529 million Euros. Instead, the volume of the credits registered increases over the period, which leads to the conclusion that foreign investors have preferred to rely on various credit schemes, most often intra-group credits instead of investing from the achieved net incomes.

#### **4. Areas of economic interest of the foreign investors in Romania**

The foreign direct investments made in Romania in the period 2003-2012 are characterized by different trends in different time periods in terms of directing capitals to the economic sectors. These are mostly oriented towards the manufacturing industry which owns, in fact, over 90% share of the Romanian economy. However, there are noted changes from one year to another in terms of the interests of certain economic activities for foreign investors, especially after the outbreak of the financial crisis in 2008, which resulted in their reorientation within the economic sectors (Table 3).

If in 2003 the manufacturing industry had a share of 51% in the foreign direct investment preferences, the percentage gradually decreased to 46% in 2004, to 37% in 2005 and stabilized at approximately 31-32% during the crisis and post crisis period.

However, it has increased the interest in other sectors, such as financial intermediation services and insurance (11% in 2004 to 18.5% in 2012, with a peak in 2007 of 23.3%), constructions and real estate transactions (from 6.4% in 2006 to 9.2% in 2012, with a peak in 2009 of 12.9%), electricity, gas and water (from 4.2% in 2005 to a minimum 3% in 2007 and a continuous increase during the whole crisis and post-crisis period, from 5.6% in 2008 to 9.7% in 2012), trade (about 11 to 12% between 2008-2012). These sectors currently hold about 49% of the stock of FDI attracted by Romania, increasing from about 43% in 2008.

The orientation of foreign investors to these sectors is explained by the fact that it offers the possibility of rapid recovery of investment, large profits, sometimes following the speculation in the financial market, or are considered areas of strategic investments, such as energy, area

increasingly sought on the background of the rising demand for finding new sources of renewable energy in the context of achieving the desiderata of a sustainable development (Table 4).

The gradual decline of the share of FDI in manufacturing and their reorientation towards the economic sectors exposed to speculation and financial risks are unlikely to provide stability for the Romanian economy, sustainable growth and competitiveness in foreign markets, the more so since they are targeted mostly towards the domestic market.

The appealing sectors to the foreign investors of the manufacturing industry are petroleum, chemicals, rubber and plastics processing, metallurgy, transport industry, food, beverage and tobacco, cement industry glass and ceramics. The products of these industries do not incorporate the high levels of RDI (research, development and innovation) having, therefore, a modest added value, with medium and long term repercussions on the competitiveness of Romanian exports.

There are some sectors with great potential, undervalued, which may successfully contribute, synergistically, to the Romanian economic recovery and to a sustainable growth, along with the other analysed sectors:

- agriculture, forestry and fishing, given the fact that Romania has large areas of arable land of very good quality;
- hotel and restaurant industry, with the fulcrum in the huge tourism potential of the country;
- the transport sector, Romania being among the few countries that has all means of transport, with the advantage of being crossed by three pan-European lanes;
- the information technology and communications, sector in continuous decline from 11% in 2004 to 4.8% in 2012. This sector belongs by excellence to RDI activities, which leads to the increase of the added value of the embedded products with the potential to increase the volume and the export competitiveness.

#### **5. Conclusions**

In the period of crisis and post-crisis both the shareholdings and the net credits (including the reinvested profit) have increased at a very slow pace. The exception is recorded in 2010, the peak year of financial crisis, which has even a slight regression in terms of the shareholdings to capital. Instead, the volume of credits recorded increases over the period, leading to the conclusion that the foreign investors have preferred to rely on various credit schemes, most often intra-group credits instead of investing from the net achieved incomes.

If in 2003 the manufacturing industry had a share of 51% in the foreign direct investment preferences, the percentage has gradually decreased

and stabilized at around 31-32% during the crisis and post-crisis period. It has increased, however, the interest in other sectors, such as financial intermediation services and insurances, constructions and real estate, electricity, gas and water, trade. These sectors currently hold about 49% of the stock of FDI attracted by Romania, increasing from about 43% in 2008.

The orientation of foreign investors to these sectors is explained by the fact that it offers the possibility of rapid recovery of investment, large profits, sometimes following the speculation in the financial market, or are considered areas of strategic investments, such as energy, area increasingly sought on the background of the rising demand for finding new sources of renewable energy in the context of achieving the desiderata of a sustainable development.

The gradual decline of the share of FDI in manufacturing and their reorientation towards the economic sectors exposed to speculation and financial risks are unlikely to provide stability for the Romanian economy, sustainable growth and competitiveness in foreign markets, the more so since they are targeted mostly towards the domestic market.

There are still undervalued some sectors with great potential that may successfully contribute, synergistically, to the Romanian economic recovery and to a sustainable growth: agriculture, forestry and fishing industry, hotel and restaurants, the transport sector, the information technology and communications, sector in continuous decline from 11% in 2004 to 4.8% in 2012. This sector belongs by excellence to RDI activities, which leads to the increase of the added value of the embedded products with the potential to increase the volume and the export competitiveness.

The overall conclusion is that the investment process in Romania has recovered from the crisis and records increases, of relatively low values for the foreign direct investments flows.

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Appendices

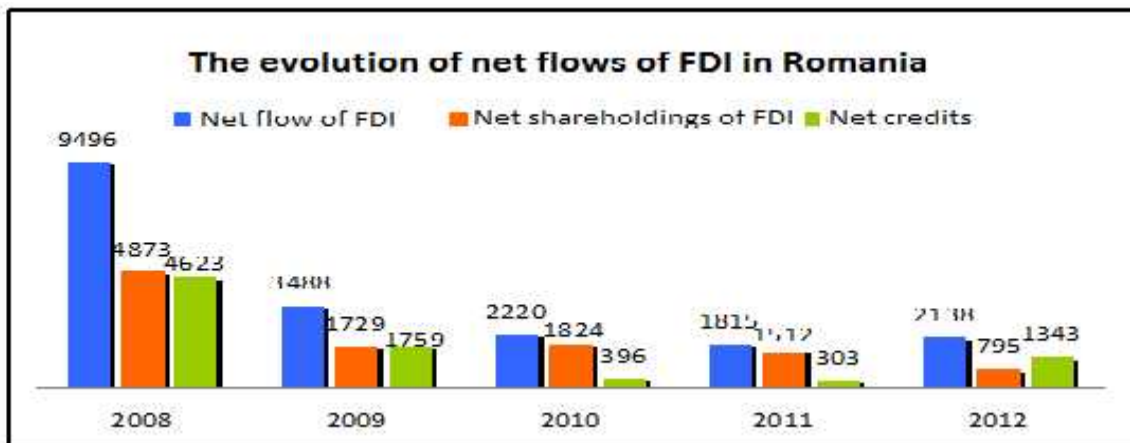
**Table 1. The annual flows of FDI for the period from 2003-2012**

- Millions Euro -

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>ISD Flows- total</b>	1946	5183	5213	9059	7250	9496	3488	2220	1815	2138
Previous year = 100 (%)	60,6	166,3	0,6	73,8	-20,0	31,0	-63,3	-36,4	-18,2	17,8
<b>FDI flows without significant privatizations*</b>	1805	3503	4413	6860	7250	8623	3488	2220	1815	2138
Previous year = 100 (%)	48,9	94,1	26,0	55,4	5,7	18,9	-59,6	-36,4	-18,2	17,8

\* over 10 mil. EUR

Source: RNB, Foreign direct investment in Romania in 2012



**Graphic 1. The evolution of net flows of foreign direct investment in Romania, in 2008-2012**

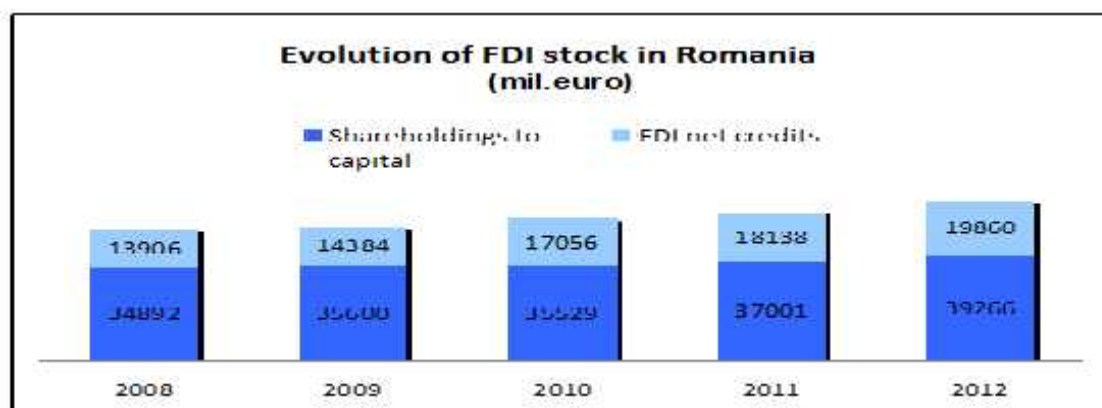
**Table 2. Evolution of FDI balances during 2003-2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Total (mil. euros)</b>	9662	15040	21885	34512	42770	48798	49984	52585	55139	52585
<b>Growth (mil.) (%)</b>	n.a.	5378 55,66	6845 45,51	12627 57,69	8258 23,93	6028 14,09	1186 2,43	2601 5,2	2554 4,86	3987 7,23
<b>Shareholdings* (including the reinvested profit)</b>	7092	12007	17490	27016	31501	34892	35600	35529	37001	39266
<b>FDI Net Credits** (mil. euros)</b>	2570	3033	4395	7496	11269	13906	14384	17056	18138	19860

\*the shareholdings are consolidated with the net loss

\*\* the net credits from the foreign direct investors

Source: RNB, Foreign direct investment in Romania in 2012



Graphic 2. Evolution of FDI stock in Romania in 2008-2012

Table 3. Evolution of FDI stock distribution by main economic activities in 2008-2012 (millions euro)

	2008	2009	2010	2011	2012
Extractive industry	2.158	2.221	2.388	2.753	3.225
Manufacturing industry	15.236	15.555	16.840	17.372	18.509
Electricity, gas, water	2.744	2.904	3.865	4.362	5.721
Professional, scientific, technical and administrative activities	1.617	2.299	2.560	2.679	2.843
Agriculture, forestry and fishing	707	552	1.068	1.316	1.402
Trade	6.060	6.164	6.519	6.282	6.714
Constructions and real estate transactions	6.155	6.453	4.746	5.897	5.466
Hotels and restaurants	181	213	417	431	348
Financial intermediations	3.283	3.235	3.081	2.967	2.854
Information technology and communications	10.026	9.510	10.055	10.0262	10.914
Transports	500	684	788	787	876
Other activities	131	194	258	267	254
<b>Total</b>	<b>48.798</b>	<b>49.984</b>	<b>52.585</b>	<b>55.139</b>	<b>59.126</b>

Source: RNB, Reports regarding the FDI, 2008 – 2012

Table 4. Evolution of FDI stock distribution by main economic activities in 2008-2012 (%)

	2008	2009	2010	2011	2012
Extractive industry	4,42	4,44	4,54	4,99	5,45
Manufacturing industry	31,3	31,1	32,0	31,5	31,3
Electricity, gas, water	5,62	5,80	7,35	7,91	9,67
Professional, scientific, technical and administrative activities	3,31	4,59	4,86	4,85	4,80
Agriculture, forestry and fishing	1,44	1,10	2,03	2,38	2,37
Trade	12,4	12,3	12,4	11,4	11,4
Constructions and real estate transactions	12,6	12,9	9,00	10,7	9,2
Hotels and restaurants	0,37	0,42	0,79	0,78	0,58
Financial intermediations	20,5	19,0	19,1	18,02	18,5
Information technology and communications	6,7	6,5	5,9	5,4	4,8
Transports	1,02	1,36	1,49	1,42	1,48
Other activities	0,26	0,38	0,49	0,48	0,42
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: According to the RNB database, Reports regarding the FDI, 2008 - 2012