Original scientific papers

Економика пољопривреде
Број 1/2008.
УДК: 330.322(498)

FOREIGN DIRECT INVESTMENTS IN ROMANIA BEFORE EU ACCESSION

D.M. Voicilas[1]

Abstract: In a world of globalization, the capital plays a very important role and will conduct our life with a deeper influence, in the next years. Among different forms of investments, foreign capital and foreign direct investments (FDI) seem to be the most dynamic and advantageous for sides, investors and receivers.

For many years, Romania did not have a good image on the international market, in the eyes of the investors and played an unsignificant role in the “FDI World Equation” at the regional level (about 6% from regional FDI). For the foreign investors, the general climate of the economy was not the best in attracting strategic investments and that was the main barrier against economic development.

During the transition period, in Romania have developed different concepts concerning investment policy and the role of the foreign capital in the future economic stability, in pre-accession period and after the accession into European Union (EU). Unfortunately, the present economic state still suffers of the lack of poise because, our decision-makers showed us a totally lack of consistency with grave negative effects on the next decision steps, as we will see in this study.

Key words: Romania, Investments, Accession

Introduction

The investment activity has a central position in the economic life, both at production and consumption level, being the factor that simultaneous by influence the demand and supply of goods and services. Investments are the main instrument for achieving economic growth. By carrying out investment projects the newest and more modern technologies can be implemented, hence they represents an instru-

[1] Dan Marius Voicilas, PhD, Institute of Agricultural Economics-Bucharest, Romanian Academy

ment for economic modernization by which new structures can be created, with high performance, in agreement with the strategic options for future development.

In the last fifteen years, different concepts concerning investment policy and the role of FDI in the future economic stability, in pre-accession period and after the accession into European Union structures, have developed in Romania. Unfortunately, the policies suffered of the lack of poise and the decision-makers showed a totally lack of consistency with grave negative effects on the next decision steps. In Romania, the policy makers' position as regards FDI was different compared to the neighbor countries, both in its contents and in consistency. Thus, a very good example in the case of Hungary, where the main conclusion on which the society and the political class from Hungary reached a consensus in early '90s was the following: in order to have a successful reform, foreign direct investments should be encouraged, mainly those investments made by transnational corporations (TNC). A practical consequence was that TNC privatization resulted in a fast increase of exports that subsequently led to economy stabilization and further attraction Greenfield investments. The above-mentioned approach (first privatization, then Greenfield investments) was essential for the successful transition in Hungary. At the same time, it is worth mentioning that the great foreign capital inflows in certain neighbor countries were mainly determined by the partial privatization of certain public utilities (telecommunication, electric power supply networks), of certain airlines or state banks. From this point of view, Romania's position was totally different.

At the same time, in order to underline the above-mentioned facts, one can also mention the general investment environment characteristics, determined among others by the social, cultural and educational background in which investors evolved throughout the transition period. Citizens' receptivity, their education and training, their flexibility and mentality have been decisive, mainly in the first years after 1989.

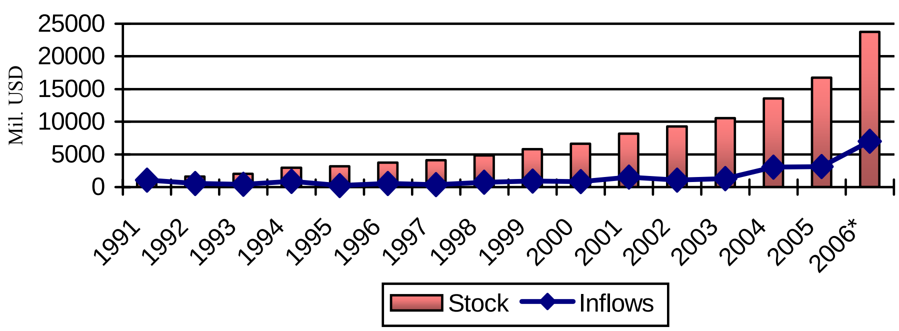
Methodology

The present study uses data provided by the national institutions specialized in FDI monitoring in Romania, also data of certain international institutions (UNCTAD). The National Office of The Trade Register (ONRC), National Institute for Statistics (INS), Romanian Agency for Foreign Investment (ARIS) and the National Bank of Romania (BNR) provide data for Romania, at macroeconomic level. It should be mentioned that the foreign direct investment (FDI) calculation methodology used by the National Bank is conform to the International Monetary Fond (IMF) manual of the balance of payments, fifth edition/1993 (also used by UNCTAD); however, the methodology of national institutions for FDI analysis and monitoring (ONRC and ARIS) is different but the differences that appear and the general trends are not significant. According to ONRC definition, the foreign capital invested in Romania is equal to capital subscription to matriculations, plus subscriptions through capital increase mentions, minus share capital transferred by non–resident shareholders/associations to resident shareholders/associations, minus share capital subscribed to firms erased from the trade register.

The evolution of the foreign direct investments

After the last EU enlargement in 2004, the major foreign investors in Central and Eastern European Countries (CEEC) have changed their policy and started to invest more in South Eastern European Countries (SEEC) than before. In 2005, about 12 billions $ were invested in SEEC which is an absolute record for this region (according to ARIS data). Among the countries in the region, Romania was the main destination with more than 51% from total (6.1 billions $, green field and privatization). It was followed by Bulgaria with 2.2 billions $.

Figure 1 The evolution of the FDI stocks and inflows in Romania (1991-2006)



Note: 2006* = Forecast;
Source: ONRC Database.

Watching the evolution of the FDI in Romanian economy (Figure 1), we can conclude that it was characterized by constant and slow incomes for almost entire period and, in the same time, the lack of privatization in “key moments”. A “key moment” could be that moment when the investors consider the moment properly for their investments. Exceptions from this „rule” were the last three years when a new trend was established due to the policy of the Romanian Government, the policy of the foreign investments after the last EU enlargement (2004) and the forecasts for the Romanian accession into EU in 2007. At the end of 2005, the FDI total stock in Romania was 16,731.6 millions $.

The general investment climate in the last years, better than in 90s, made possible an improvement of the collaboration between Romanian administration and investors. In the same time, the perception of the Romanian business environment among foreign investors has become positive and, as a result, the ratting, which was given to Romania by international financial agencies, was upper. That was an asset and encouraged the investors. Even for 2006 the previsions were favorable and the Romanian authorities expected FDI inflows at an upper level than in 2005 (we except the inflows from the main privatization made in 2006 that can increase the stock up to 10 billions $).

Table 1 FDI tendencies in Romania (1991-2005)

Indicator	Inflows in total stock (%)	Average stock (Mil. $)	Average stock per capita (Thou. $)	Average inflows per capita (Thou. $)
1991	6.32	1058.3	48.8	48.8
1992	3.43	815.8	75.3	26.4
1993	2.5	683.1	94.5	19.3
1994	5.27	732.8	135.2	40.7
1995	1.42	633.8	146.2	11
1996	3.43	623.7	172.6	26.5
1997	2.15	586	186.9	14.3
1998	4.52	607.2	221.8	34.8
1999	5.64	644.7	265.4	43.6
2000	5.02	664.1	304.1	38.7
2001	9.21	743.8	375.2	71.1
2002	6.45	771.7	424.9	49.7
2003	7.7	811.5	484.4	59.4
2004	18.12	970.1	626	139.9
2005	18.82	1115.4	771.7	145.3

Note: we considered the population constant at the level of the year 2002 (21,680,974 inhabitants);

Source: Voicilas, D.M., 2005, Foreign direct investment in South-East Europe – overview on Romania and Bulgaria, Special study in „Foreign Investments in Poland – Annual Report", Supervised by Janusz Chojna, ISSN 1231-1111, Foreign Trade Research Institute, Warsaw, Poland; Calculations based on ONRC Database; INS Database.

From table 1, we can distinguish three forms of attitude of the foreign investors during transition (Voicilas, 2005):

- A defensive attitude, which characterizes the majority of the period, with little FDI, less than 6% from total (period 1992-2000);
- A prudent attitude, which characterizes a few years of the period, with a FDI policy in expectation and investments between 6-10% from total (1991, 2001-2003);
- An offensive attitude, which characterizes the last years, with intensive investments, more than 15% from total (2004-2005).

"The concave evolution" of the average FDI in total stock, in the whole period, is an evidence of the attitude of the foreign investors and their response to the political and economical climate in Romania (Voicilas, 2005). The concavity is a result of the withdrawal of the foreign investors from the Romanian market, for a period of time, due to the lack of political stability and reforms in economy during 90s. The changes in the last years have attracted the investors again.

The last two indicators from table 1 show us that Romania recovered a part of "the time lost" in 90s and it is closer to other countries in Central and Eastern Europe (CEE) or even some countries from South and Eastern Europe (SEE), like Croatia and Bulgaria. For many years, Romania suffered at this chapter even in comparison with other SEEC.

Table 2 Romanian FDI Outflows

Indicator	% in CEE	% in SEE
1991	8.039	100
1992	5.894	17.778
1993	2.261	20.877
1994	0.002	0.05
1995	0.27	10.309
1996	0.001	0.029
1997*	-	-
1998*	-	-
1999	0.65	18.265
2000*	-	-
2001*	-	-
2002	0.328	2.727
2003	0.796	38.897
2004	0.985	42.323
2005*	-	-

Note: * = negative value;
Source: Calculations based on UNCTAD Database.

In these conditions, Romania becomes a principal receiver of FDI in SEE. It is still behind countries from CEE, like Poland, Hungary and Czech Republic (taking into account indicators like FDI stock, FDI inflows, average stock/capita or average inflows/capita), but the tendencies are encouraging. With about 1/3 from the total investments made in these countries (analyzed separately) in the last fifteen years, the gap between Romania and CEEC is still big.

If the FDI inflows are quite at an encouraging level, not the same can be said about the investments made by Romania on the foreign markets (Table 2). This proves a low investment power, the lack of capacity to generate additional funds that should be used for medium and long-term investments in other countries, even with a low macroeconomic maturity level. In fact, the same trend appears in the whole countries in the region and the last years asserted this shape. The countries in the region continue to be FDI receivers due to their needs and attractiveness.

As regards FDI outflows, at CEE level Romania did not have important contributions; the market share was generally less than 1%, with small exceptions at the beginning of the investigated period (i.e. 1991-1993). In the same time, the role played by Romania among SEEC is much more important and as a result the market share is greater. For the investment outflows from Romania, UNCTAD statistics indicate more than 30% in 2003 and 2004 (except 1991 from the analysis).

The sources of the foreign direct investments

The origin of the investors can show us the profile of the market and it is tied to the history. Many present political, economical, social, or cultural aspects are direct connected with the historical development and commercial background of the investors. The traditions and customs of the states, geographic closeness to source, specific culture, also to other elements of social and political nature, are like a mirror for partners and represent common values which are shared between them.

The most important investment sources come from EU countries (Table 3). On the first places are countries like: Netherlands, Austria, Germany, or France, with more than 50% in total FDI. Among the first ten investors on the list, USA is the only non-European investor.

Table 3 FDI sources in Romania (the first 10 countries, 1991-2005)

No.	Country	FDI's value (Thou. $)	% in total FDI	No. of companies	% in total number
1.	Netherlands	2,635,582.9	16.61	2,288	2.05
2.	Austria	2,305,582.1	14.53	3,578	3.21
3.	Germany	1,514,838.9	9.54	12,898	11.56
4.	France	1,501,694.3	9.46	4,060	3.64
5.	Italy	922,325.2	5.81	18,747	16.80
6.	USA	794,117.4	5.00	4,411	3.95
7.	Holland Antilles	677,632.6	4.27	11	*
8.	Great Britain	641,812.8	4.04	2,203	1.97
9.	Greece	607,984.5	3.83	3,164	2.84
10.	Cyprus	585,600.8	3.69	1,712	1.53
Total	-	19,673.4	100.0	119,120	100.0

Note: * = less than 0.01%
Source: ONRC Database

As regards the frequency of registrations (number of registered commercial companies), there are two different groups. The first group of countries contents Italy and Germany with about 28% from total (each country has more than 10% from total). The second group contents countries with less than 4% from total number of companies. The positions of The Netherlands, Austria, or France are quite interesting because these countries have huge investments in foreign currency, but not a large number of companies present on the market. Comparing the classifications according to the two criteria, it result that the Western countries represent „the main spring" of FDI for Romanian economy.

Table 4 FDI sources by continents (1991-2005)

Continent	No. of companies	% in total number	FDI's value (Mil. $)	% in total FDI	Average value ($)
Europe	78,085	65.6	14,024.1	83.8	179,600.4
Africa	2,105	1.8	37.6	0.2	17,862.2
USA	4,411	3.7	793.5	4.7	179,891.2
South America	1,822	1.5	491.1	2.9	269,539.0
Asia	32,142	27.0	620.3	3.7	19,298.7
Oceania	554	0.5	765.0	4.7	1,380,866.4

Source: ONRC Database

It is also interesting to present the situation of FDI sources by continents (Table 4) and certain economic organizations (Table 5).

The biggest value of FDI comes from Europe (83.8%), which is on the first place according to the number of companies registered (65.6%), as well. A large number of companies also come from Asia but the value invested was not at a high level. Regarding the average value, the situation is changing because the biggest average value is from Oceania, which means that those few companies from this part of the world invested huge amount of money (the same characteristics appear in case of South America).

Table 5 FDI sources by economic organizations (1991-2005)

Economic organization	No. of companies	% in total number	FDI's value (Mil. $)	% in total FDI	Average value ($)
EU	47,718	40.1	10,916.0	65.2	228,760.6
EFTA	1,750	1.5	538.6	3.2	307,771.4
OECD	70,379	59.1	4,788.9	28.6	68,044.4
CEFTA	6,364	5.3	488.0	2.9	76,681.3

Source: NOTR Database

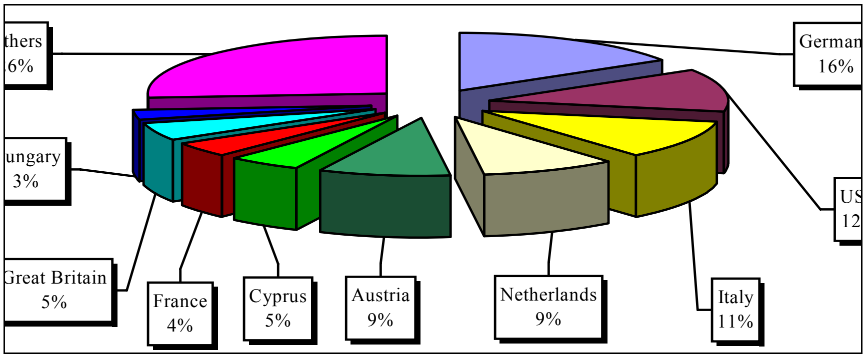
OECD or EU countries are prevailing, both as regards the established companies and the subscribed nominal capital. Taking into account the average value, we can conclude that the EU countries invested more and OECD countries do not have a good average being on the last place. The highest average subscribed capital comes from EFTA countries. As regards CEFTA countries, the situation is the following: large number of commercial companies, low value of subscribed capital (comparable to that of EFTA countries) and small average investments.

The privatization process

The privatization is another side of the investment process. Together with the "Greenfield" inflows, the funds from privatization contribute to the development of the Romanian business environment. In Romania, the process of the privatization started late and its effects on domestic market were not the same like in other CEEC.

The main sources of privatization came from Germany, USA, Italy, Austria and The Netherlands (Figure 2), the same countries that have important direct investments in Romania (according to the Romanian Authority for Privatization – AVAS).

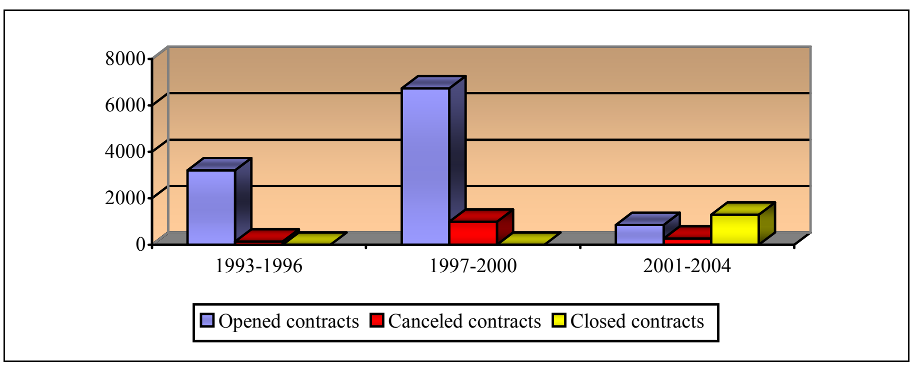
Figure 2 Privatization sources (1993-2005*)



Note: 2005* = Preliminary data; Source: AVAS Database

All these countries sum up almost 60% from the total foreign investment in privatization. The process continues and the authorities are expecting to attract other strategic investors in the following years. There are still sectors of activity very attractive like energy, distribution or banking, with a great potential, which are on the list of the Romanian authorities with the intention of privatization. For some of them, the discussions and preliminary steps were already done.

Figure 3 The evolution of the privatization (1993-2004)



Note: Opened contracts means enterprises sold by contracts signed at that date; Canceled contracts means contracts which were not closed and ended; Closed contracts means the contracts totally assumed and paid by the new owners.

Source: AVAS Database

During 1993-2004, AVAS sold 7629 enterprises. The evolution of the privatization, with a distinct evidence for number of contracts opened, closed and canceled is represented in the Figure 3.

Conclusions

The present study, as well as the studies produced by other authors or institutions (i.g. UNCTAD, United Nations Economic Commission for Europe[1]) reveals certain characteristics of the FDI flows in a transition countries from Central and South-Eastern Europe, applicable for Romania, too:

- These flows grow faster than the world average;
- The FDI per capita is low compared to the values in Western Europe (2000-3000 USD) and USA (about 1800 USD);
- There is a linear correlation between GDP per capita in the transition countries and the FDI level;
- The main sectors initially targeted by foreign investors were the industrial sector (40-60%) and the trade sector (12-25%);
- About 25% of FDI in the transition countries come from Hungary, Poland, Czech Republic and Russia;

The general framework for FDI attraction, of which the legal framework is a part, although now created by all CEECs, was either not completed or it was affected by instability and subordinated to political struggles, personal or group interests. Neither the institutional framework was mostly adequate and efficient in most CEECs, so that the foreign investment flows were mainly directed to three countries: Poland, Hungary, the Czech Republic. The foreign investors had a negative reaction to those countries in which political instability was manifested, which resulted in social and economic instability, often remembered in EU Country Reports. The drawbacks and frequent modification of legislation, corruption and bureaucracy have been the main disturbing factors.

To sum up, it can be stated that the present development stage for most CEECs is far from the EU level in all the economic sectors. Only the five countries from CE (Poland, Hungary, Czech Republic, Slovakia, Slovenia) are closer to the EU parameters; the countries from SEE are far from completing the accession requirements. The large gaps already existing between the countries from CE and SEE would be bridged up only by an aggressive policy, of attracting foreign investors

[1] Promoting Foreign Direct Investment in Central and Eastern Europe and the CIS, 2000, United Nations Economic Commission for Europe, Geneva, Switzerland

by the SEE countries with a faster rate than that in the CE, in those activity sectors that are interesting for investors; after that, by a "domino effect", other sectors less attractive or with a higher risk level would be included in the international financial flows (e.g. agriculture). Romania was generally avoided by the significant world investment flows. It is obvious that we are at fault. Only in recent years an acceleration of the investment attractiveness was experienced, with certain strategic privatizations, with largely yearly FDI inflows, with the elaboration of certain special lows for the important foreign investors; this is mostly beneficial and encouraging for the economy and it will be reflected in the future economic growth, while the economic revigoration will be possible. However, with all these positive signals and future hopes, a question still persists, namely: isn't this start too late, is there time for bridging up the gaps or will these countries continue to remain in the future, too "second hand countries among the second hand European countries"?

References

1. Voicilaş, D.M., 2005, Foreign direct investment in South-East Europe– overview on Romania and Bulgaria, Special study in „Foreign Investments in Poland – Annual Report", Supervised by Janusz Chojna, ISSN 1231-1111, Foreign Trade Research Institute, Warsaw, Poland;
2. Promoting Foreign Direct Investment in Central and Eastern Europe and the CIS, 2000, United Nations Economic Commission for Europe, Geneva, Switzerland;
3. ONRC, INS, AVAS, UNCTAD Database.

Примљено: 11.12.2007. Одобрено: 28.03.2008.

Author's Address:

Dan Marius Voicilas, PhD
Institute of Agricultural Economics Romanian Academy
Calea 13 Septembrie No.13, Sector 5
Bucharest
Romania
http://ince.iea.ro
Tel/Fax: +40722-398119/+4031-4083355
E-mail: mariusv@k.ro