

DYNAMICS AND REGIONAL DISPARITIES OF THE FOREIGN DIRECT INVESTMENTS IN ROMANIA

DINAMICA ȘI DISPARITĂȚILE REGIONALE ALE INVESTIȚIILOR STRĂINE DIRECTE ÎN ROMÂNIA

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Abstract: The present study aims to evaluate the linkages between one of the most important instruments of economic globalization, namely foreign direct investments/FDI and regional social-economic characteristics. The research focuses on the dynamics and territorial differentiations registered by the FDI in Romania, underlaying the advantages of the host area in terms of economic growth, job creation, stimulation of technology transfer and trade.

Key-words: *foreign direct investments, Romania, socio-economic effects*

Cuvinte-cheie: *investiții străine directe, România, efecte socio-economice*

I. INTRODUCTION

An essential component of economic globalization, foreign direct investments represent financial and resource flows, which cross the economic borders of the states. As defined by the National Bank of Romania/BNR, the foreign direct investment (FDI) is a long-term investment relationship between a resident entity and a non-resident one; usually, it involves the investor exercising a significant managerial influence in the company in which he invested.

Several types of FDI are differentiated according to the contribution of the flow of foreign participations to the capital, i.e.: *greenfield* (the establishment of enterprises by or together with foreign investors - investments starting from scratch); mergers and acquisitions /M&A (full or partial takeover of enterprises by foreign investors from residents); business development (increasing the capital holdings of foreign investors in foreign direct investment enterprises); restructuring of companies (financing by foreign investors, through capital contribution, of foreign direct investment enterprises with losses, in order to make them profitable (BNR, 2019).

The FDI flows and relations with national or regional development were analysed by numerous researchers at international level. The studies tried to identify the main determinants in attracting foreign direct investments, such as labor

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hand availability, instruction and cost, market size and features, accessibility, taxes, economic growth, etc. (Beer&Cory, 1996), but also the effects of FDI implementation in host regions depending, among others, on the *social capital* (Basu&Guariglia, 2003; Sylwester, 2005; Cusi&Resmini, 2012, 2017, etc.). At the European Union level, a research conducted in 2006 by Copenhagen Economics on foreign investments and regional development pointed out that FDI are an important tool in increasing the technological level and the competitiveness of a country.

The study of FDI and their relations with the regional characteristics have gained importance in the Romanian literature during the last decade. Thus, analyzing the regional disparities of the FDI in Romania, Danciu et al. (2010) and Danciu&Strat (2012) recognize the following significant factors that differentiate the distribution of FDI at the level of Romanian regions: privatization process, economic growth, labor cost, education and infrastructure. The predominance of agriculture is also a characteristic of the regions that receive low levels of FDI.

The regional disparities concerning the relation between FDI inflow and economic growth are analyzed by Nistor (2012); the author finds that the economic development has a positive impact on FDI level, but the process of catching up must be more dynamic and she concludes that the attention to FDI volume must be doubled by a similar concern regarding FDI destination.

Studying the most important factors with impact on the dynamics of FDI flows in Romania, Dornean et al. (2012), show that economic growth has a significant and positive influence over the level of FDI, an interesting result being that the link between financial crisis and GDP growth had a powerful influence on FDI level. Moreover, the importance and impact of the financial crisis on economy and, subsequently of FDI flows in Romania, is underlined by Popa & Gavril (2014) who show a decrease of investment levels in 2009 as compared to 2008. The decline in FDI, caused by financial crisis, has stimulated policy makers to think some reforms in order to create investment conditions in Romania so that this will overpass the economic crisis effects (Dornean&Oanea, 2015).

II. DATA AND METHODS

The present paper aims to analyze the dynamics and the spatial distribution of FDI in Romania, as well as some of the most important interdependencies among investments and social-economic indicators concerning the labor market and the living standard.

The analyses are mainly based on statistical data supplied by the National Institute of Statistics, through its TEMPO online database and by the National Bank of Romania, through its annual reports concerning the foreign direct investments in Romania. The present research broadly concerns the last two decades, focusing on the economic and social dynamics that characterize the period comprised between 2000 and 2018. From the structural viewpoint, foreign direct investments have been analyzed at regional level, underlining the most important county differences for the last three years; a further structural research concerns the main economic activities.

III. RESULTS AND DISCUSSIONS

3.1. FDI dynamics, structure and origin

As a consequence of a general ascending trend, the global FDI inflow is more than seven times larger than in 1990 (1,495,222.6 million dollars in 2018), although the latest volumes did not reach the peak values attained before the financial crisis (1,891,708.3 million dollars in 2007) and in 2015 (a maximum of 2,041,769.7 million dollars) (Fig. 1). Although dominant in the structure of FDI inflows at regional level at the beginning of the interval (i.e. 83.1% in 1990), the developed countries account in 2018 for 50,9% of the global FDI inflows, which places them in a much more balanced relation with the developing economies (46,8%) during the last decade, while the transition economies only account for 2,3% of the total value (UNCTAD, 2019).

Despite their augmentation in absolute values, the FDI inflows at European Union level represented in 2018 only 27.8% of the global FDI inflows (as compared to 46.6% in 1990), the most important receivers being the Netherlands, Germany, UK, Spain, France and Italy (with more than 30,000 millions of dollars each in 2018). In this framework, with 6,218.9 million dollars in 2018, Romania accounts for 0.4% of the total FDI inflows and 1.5% of those of the EU (UNCTAD, 2019).

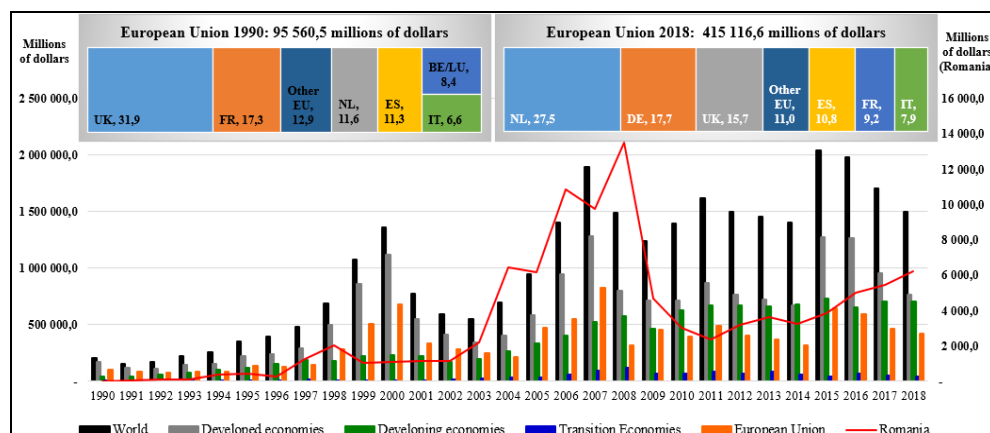


Fig. 1. Dynamics and regional structure of FDI inflows (1990-2018)

(Source: data processed after UNCTAD, 2019)

Reaching a peak value before the *Great Recession* (i.e. 9,496 million EUR in 2008), the inward FDI flows collapsed afterwards for Romania (to only 1,700 million EUR in 2011). The subsequent recovery is much slower than the global dynamics (dominated by Asia), but it still describes a positive trend as compared to the EU situation (Figures 1, 2).

Following this trend, the net FDI flows in Romania reached 5,266 million EUR in 2018; in this framework, according to BNR, foreign direct investors' equity in direct investment enterprises stood at 5,546 million EUR (including 2,973 million EUR represented by equity capital in FDI enterprises and 2,573 million EUR by reinvestment of earnings, which amounted to a total of 8,930 million EUR), while

debt transactions of direct investment enterprises with their foreign direct investors, loans from fellow companies included, stood at EUR -280 million (lending to direct investors exceeded borrowing from direct investors). In the same year, the FDI net flows mainly went to trade (1,580 million EUR) and manufacturing (1,362 million EUR). The main industrial sub-sectors that took advantage of foreign investments were transport equipment, food - beverages - tobacco, oil processing – chemical - rubber - plastic products (each with values comprised between 20 and 337 million EUR). Other economic activities that received large FDI inflows were financial intermediation and insurance (EUR 896 million), construction and real estate transactions (EUR 581 million). Manufacturing, trade and financial intermediation and insurance also reported the highest values for reinvestment of earnings.

At the end of 2018, the FDI stock in Romania reached 81,124 million EUR, 70.85% (i.e. 57,479 million EUR) of which was represented by equity positions (including the accumulated reinvestment of earnings), while the debt positions in relation to direct investors (fellow debt included) accounted for 29.15% of the closing FDI stock. By economic activity, 41.1% of the total were distributed in industry (mainly in manufacturing activities, i.e. 30.9% of total FDI stock, while electricity, gas and water supply activities accounted for 7.4% and mining activities attracted only 2.8% of the total FDI stock). Other activities that also attracted significant investments were construction and real estate transactions (16.8%), trade (15.8%), financial intermediation and insurance (11.5% of the FDI stock).

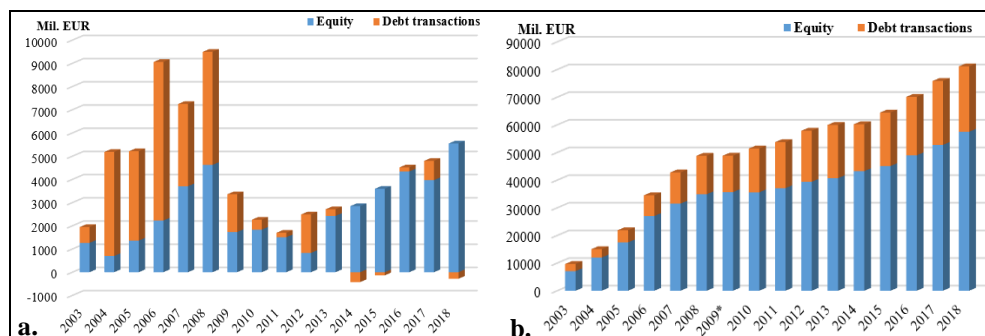


Fig. 2. Dynamics of FDI net flows (a.) and stocks (b.) in Romania (2003 – 2018)

*Computations are made in compliance with the international methodology for determining reinvestment of earnings of FDI enterprises (BPM6) (Source: data processed after BNR, 2019)

The structure of the FDI stock in Romania by country of origin and its dynamics reveals the stable and significant investors, such as The Netherlands (29.3% in 2018), Germany, Austria (each with more than 12% of the total FDI stock in the same year). Certain countries consolidated their position in the FDI stock structure (Italy, Cyprus), while other economic partners registered a declining trend from this viewpoint (although it remains an important partner, France went from 10.3% in 2003 to 6% in 2018, while the USA participation decreased from 3.4% to 0.7% in the same interval).

The social-economic importance of FDI is underlined by recent dynamic values. Thus, for the last year of analysis, the FDI enterprises' turnover went up by

8.5% as compared to 2017, reaching more than 179 billion EUR, while the average number of employees rose by circa 0.5% to 1,316 thousand persons (BNR, 2019).

The general activity of direct investment enterprises had a positive impact on Romania's foreign trade, their contribution to the total exports and imports of goods reaching 75.0% and 68.2%, respectively, while direct investment enterprises account for 52.7% of exports and 47.5% of imports of services. The analysis of the international trade in goods balance of FDI enterprises reveals that manufacturing is the main sector that recorded a trade surplus (exports of 43,407 million EUR and imports of 35,338 million EUR), with such economic activities as transport equipment, metallurgy, wood products, machinery and equipment, textiles - wearing apparel - leather goods (each with surplus values comprised between 5,021 and 952 million EUR). Lower values were registered by FDI enterprises operating in agriculture, forestry and fishing (with exports amounting to 195 million EUR and imports to 123 million EUR), while the highest trade deficit was recorded by FDI enterprises operating in trade (value resulted from exports of 3,577 million EUR and imports of 16,108 million EUR). Analyzing the balance of international trade in services, it can be noted that the most important surplus was recorded by telecommunications, computer and information services (i.e. 2,372 million EUR, resulted from exports of 3,548 million EUR and imports of 1,176 million EUR).

3.2. FDI territorial distribution in Romania

From the geographical viewpoint, FDI stock distribution is uneven both at regional (Fig. 3) and county (Fig. 4) level and the discrepancy between attractive and repulsive areas for FDI enterprises represents the premise for an interesting parallel between foreign investments and regional development. In 2018, the most important investments went to the Bucharest-Ilfov development region (49,250 million EUR). Other development regions which attracted significant FDI inflows were the Centre (7,331 million EUR), the West (6,948 million EUR), the South-Muntenia (5,136 million EUR), and the North-West (4,610 million EUR).

During the 2003 – 2018 period, the leading region consolidated its position (from a value of 54.2% in 2003, Bucharest Ilfov peaked in 2007 with 64.3% and accounts for 60.7% of the total FDI stock in 2018). The same positive trend characterizes regions like the Centre (6.5% in 2003 and 9.0% in 2018), the West (7.7% in 2003 and 8.6% in 2018, recovering after the low values recorded in 2006 – 2008 interval). Their better accessibility in the Romanian framework (presence of highways, of other modernized roads and of airports, proximity to highly permeable borders, etc.), as well as certain social and economic features (more significant presence of urban and highly educated population, occupied especially in industry and services – Fig. 5) of these regions are among the attractiveness factors that enabled the implementation of FDI enterprises. Nevertheless, in 2018, regional contrasts are still present: Harghita and Covasna counties account for under 0.2% of the national FDI stock (some of the lowest values in Romania), while in the same region, Mureş and Braşov account for 2.22% and 3.44% respectively (Fig. 4). The same disparities are to be noticed at the level of West region, where the high attractiveness of Timiş county (5.77% of the FDI stock in

2018) is contrasted by the FDI repulsive character of Caraş-Severin (0.21% in 2018, on a decreasing trend during the last three years) and Hunedoara (0.52%).

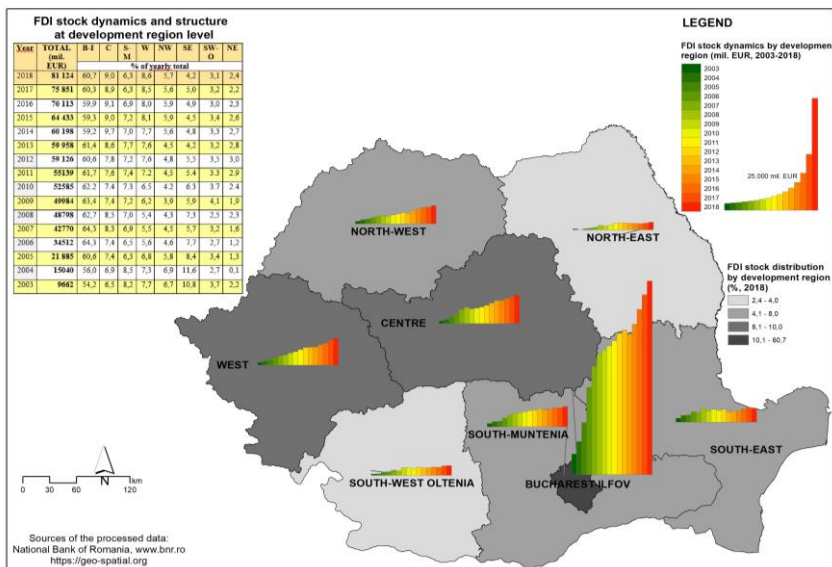


Fig. 3. Dynamics and regional structure of FDI stock (2003 - 2018)

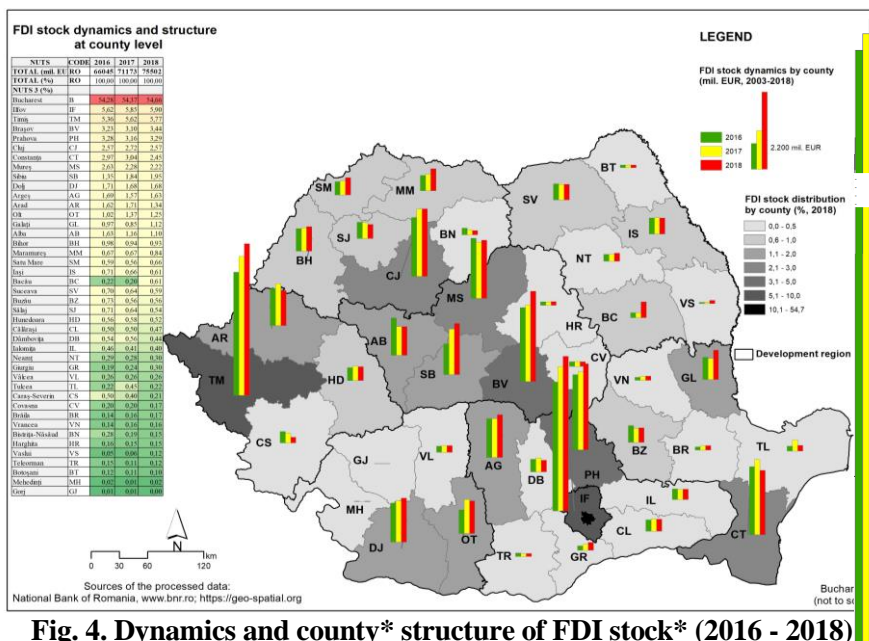


Fig. 4. Dynamics and county* structure of FDI stock* (2016 - 2018)

*Enterprises with at least 20 employees and atypical enterprises, which are direct investment enterprises having less than 20 employees and whose turnover or share capital was more than 30 mil. RON, or which took long-term loans from their foreign direct investors or non-resident fellow enterprises of more than 15 mil. RON; they account for 93.1% of the FDI stock in 2018 (Source: data processed after BNR, 2019)

It is to be mentioned the positive trend of the North-East region, which registered a notable increase from 0.1% in 2004 to values above 2% after 2010. However, with 2.4% of the total foreign investments at the end of 2018, the region still occupies the last position. The regional disparities are also obvious, as most of the foreign investments are directed towards Iași, Bacău (with important increase in 2018) and Suceava (each county with circa 0.6% of the total FDI stock in 2018), while counties such as Vaslui and Botoșani (among the poorest in Romania, characterized by a more extended agricultural sector and higher unemployment rates – Fig. 5) only account for circa 0.10% of the FDI stock.

Despite the higher investments realized in 2018 as compared to 2003, the other four development regions in Romania were rather slow to implement them and they finally account for lower participation values in the structure of the total FDI stock. Thus, ranking second and third in 2003, the South-East and South-Muntenia regions lost their advantages, accounting for 4.2% and, respectively 6.3% of the FDI stock in 2018. At the level of these two regions, most of the foreign investments are concentrated in one single county, i.e. Prahova (3.29% in 2018, on a positive trend) and Constanța (2.45% of the total FDI stock at end 2018, slowly decreasing). The same is also to be noticed concerning the North-West region (6.7% in 2003 and 5.7% in 2018), where Cluj county receives the largest part of the foreign investments (i.e. 2.57% in 2018 of the FDI stock in Romania), while counties such as Sălaj and Bistrița-Năsăud are on a declining trend and account for much lower values.

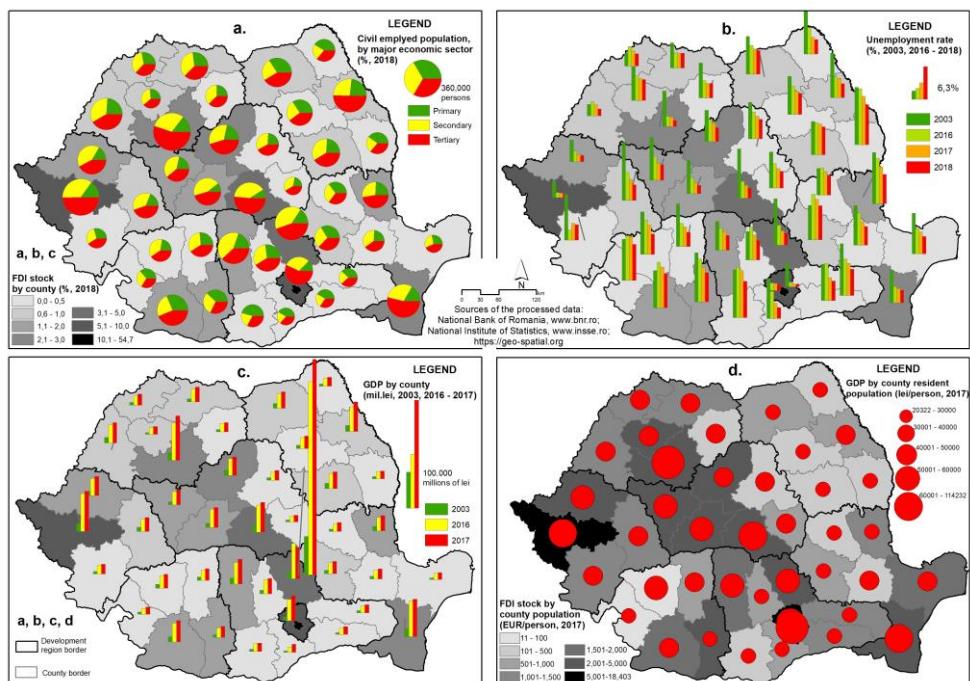


Fig. 5. FDI distribution in relation to selected social and economic indicators

As compared to the other development regions in Romania, South-West Oltenia is characterized by a rather slow rate of FDI implementation, which places it next to the last region during the entire analyzed period. The 3.7% value registered in 2003 has only been surpassed in 2009, when the region accounted for 4.1% of the total FDI stock in Romania. In 2018, the region registered a foreign investment level of 2,478 million EUR, which represent 3.1% of the national FDI. The regional leader is Dolj county (1,267 million EUR in 2018, slowly increasing during the last three years), followed by Olt (942 million EUR), which contrast with the two counties that rank lowest in Romania with respect to foreign direct investments, i.e. Mehedinți and Gorj (each with values under 20 million EUR or 0.03% of the total FDI stock during the entire 2016 – 2018 period).

IV. CONCLUSIONS

In order to analyze the dynamics and spatial distribution of FDI, it is important to understand the factors which lead to this distribution. FDI are influenced by the social capital of the Romanian development regions (characteristics of labor force, such as education or major activity sector), as well as by accessibility and public investments concerning the infrastructure. Thus, the magnitude of FDI influencing the economic growth is directly affected by the regional characteristics. Romanian counties (and, of course, Bucharest) with good infrastructure, higher educated people and developed communication technologies, are preferred for businesses that want to invest their capital.

The analysis points out to the relations between FDI and other economic indicators, such as the unemployment rate (with higher values especially in the south and east of Romania, where less important FDI volumes are attracted). There are also correlations between the extension of the agricultural sector, especially in the south counties, which account for small values in the FDI stock structure.

On the other hand, counties with better accessibility (more diverse and denser infrastructure, higher part of modernized roads and even highway sectors) are more attractive for FDI enterprises. The relation between FDI and economic growth is further underlined by the fact that the counties attractive for foreign investors are characterized by higher GDP values.

It can be argued that there are also other very important characteristics originating at national level, which play an important role in creating a favorable environment for foreign direct investments.

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