

CONSIDERATIONS CONCERNING FOREIGN DIRECT INVESTMENTS IN ROMANIA, PERIOD 2011-2019

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Abstract: *The paper “Considerations concerning foreign direct investments in Romania, period 2011-2019” aims at studying which the main types of foreign direct investments were, differentiated according to the contribution of the flow of foreign equity investments in foreign direct investment companies: greenfield, mergers and acquisitions, company development, company restructurings, in the analysed period.*

Keywords: Foreign direct investments, Company development, Greenfield, Company restructuring, Mergers and acquisitions.

JEL Classification Codes: E22, E29.

1. INTRODUCTION

Nowadays, the premises of the economic development of a country lie in the abundance of capital. Public sources of investment are frequently limited by various national interests that tend to take priority - the payment of salaries and pensions, the control of the budget deficit, etc. In the absence of investment, economy loses. If public resources are limited, then private funding should be encouraged. (Popa, 2012)

Foreign direct investment (FDI) is a healthy source on which economic growth can be based, including during periods when economic stability is in jeopardy and growth is under pressure because: (Horobeț & Popovici, 2017)

- FDI are complementary to public sources of financing and provide the capital needed to develop an economy;

- FDI create new jobs not only in the company in which they invest, but also stimulate the development of other companies upstream and downstream;

- FDI is not only a flow of capital, but also one of technology, knowledge, organizational practices, which stimulates and generates economic growth. Foreign investors impose their own way of working to the company they develop and bring new technologies, which increase the efficiency of employees and the competitiveness of the company. These beneficial effects are propagated throughout the entire chain of companies involved in the generation of a product or service, which are adapted to survive in the market;

- FDI are characterized by long-term stability. What defines FDI is precisely the sustainable interest of the investor in the company in which he invests. Therefore, an investor who has set up a new company will not give up his investment so easily, even in turbulent economic times.



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In the contemporary economy, trade and production have expanded unprecedentedly at global level, and therefore, foreign direct investments have become widespread in the financing and economic policy implementation field. We are thus talking about granting by law the possibility of an individual to invest in a territory other than the one where he resides. Developed countries do not have legislation on foreign direct investment. In the case of the European Union, the possibility of making foreign direct investments is included in the free movement of capital.

By means of foreign direct investments, the economic policy of a state is achieved, which establishes, at a given time, priorities by branches (in which areas it is desired to have foreign investments made), regions (where investments are desired), problems (what problems the foreign investments should solve).

In the activity of attracting foreign direct investments, various marketing strategies are used, over a longer period of time. Within the techniques of attracting foreign direct investments, an important place is held by incentives (financial, fiscal, non-fiscal incentives, etc.), although their granting to investors is intensely debated and criticized. Nevertheless, the practice of granting incentives to foreign investors is growing worldwide, and the number of countries that grant incentives and their forms have diversified worldwide.

The most common incentives are tax incentives, which include tax reductions or exemptions, reduced import/export duties, etc. This type of incentive is preferred by developing countries.

The financial incentives, offered mainly by the European Union and the United States of America, represent the granting of a free amount for capital investments, staff training, development of the investment site, development of the infrastructure, etc.

A third category of incentives, very difficult to classify, includes a variety of forms, from erecting buildings, creating access roads, training staff, to access to local sports clubs granted to investors.

Nevertheless, the best incentive for foreign investors is the existence of a dynamic economy; any investor wants to place his money in prosperous regions, and in the event of a recession, he can only invest if local entrepreneurs are in good economic shape, because he cannot exist alone in the market, being connected to the activities of those around him.

Investing in foreign markets could improve the firm's ability to serve that market and nearby markets. By designing products according to local conditions, the company provides a better service to distributors and customers. Also, the company may be required to establish a local market to defend against competitors. Local production can reduce the final cost of the product by lower costs of production and distribution. Third, local production can become an inevitable solution, where government policies and customs barriers make the export an unattractive option. (Neamțu & Neamțu, 2016)

Within the European Union, incentives are monitored by the European Commission, and there are provisions on their level, ensuring the conditions of competition, etc. Despite all these regulations, there is an increasing number of forms of incentives, which escape the control of the European Commission.

We can talk about a set of advantages that foreign direct investments can bring to the host country, significant aspects related to: (Popa, 2012):

- the positive effect of foreign direct investment on economic growth, stimulating domestic investments, trade balance and supporting the growth of incomes to the state budget;
- financial resources of foreign direct investments that become much more stable;
- improving the technical expertise (know-how) and managerial skills; moreover, foreign direct investment can bring modern technologies that contribute to increasing the

efficiency of existing ones and can generate actions to finance local research and development capacities;

- assistance to the host country by improving exports in the markets for goods and services, ensuring a transfer of production from domestic to international level.

2. ANALYSIS OF FOREIGN DIRECT INVESTMENTS

The flow of equity participations into direct foreign investment enterprises (FDI) is differentiated into greenfield, mergers and acquisitions and company development. Greenfield investments imply the establishment of enterprises by or together with foreign investors, more specifically, investments started from zero. Mergers and acquisitions are the full or partial takeover of businesses by foreign investors from residents. Company development refers to the increase of foreign direct investment capital holdings in a foreign direct investment enterprise. (<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>)

In 2011 and 2012, the flow of equity investments in FDI enterprises was differentiated into greenfield, mergers and acquisitions and company development. From the data presented in Table 1, it can be seen that in 2011, greenfield investments recorded a very low level of only 27 million EUR representing 0.7% of the capital holdings in FDI enterprises (as can be seen from the data presented in the table 2), investments in the mergers and acquisitions category are in the same situation with 86 million EUR (2.1% of the participations). The largest share in the flow of equity participations in 2011 was represented by the development of companies with a value of 3896 million EUR, respectively 97.2% of the participations (Table 2).

Table 1. Types of foreign direct investments in the 2011-2019 period

	<i>million eur</i>								
Year Type of investment	2011	2012	2013	2014	2015	2016	2017	2018	2019
Greenfield	27	18	112	77	96	78	77	43	67
Mergers and acquisitions	86	-5	152	196	-5	184	213	165	106
Company development	3896	2663	1391	2438	1742	773	787	1046	649
Company restructuring	-	-	1109	1511	1252	2168	1158	1719	1416
<i>Flows of equity participations in FDI enterprises</i>	4009	2676	2764	4222	3085	3203	2235	2973	2238

Source: Own processing of the data collected from the report *Investițiile străine directe în România în anul 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 (Foreign direct investments in Romania in 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019) pages 12-18, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>*

From the point of view of the distribution of the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards manufacturing (28.6% of the FDI balance in greenfield enterprises). Other sectors where these investments have a significant share are: trade (19.6%), construction and real estate transactions (14.7%), financial intermediation and insurance (14.2%).

(<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, 2011)

In 2012, the flow of equity participations in FDI enterprises amounted to 2676 million EUR (Table 1), a significant reduction compared to the previous year (Figure 1).

The level of the greenfield investments was very low, of only 18 million €, in 2012, and the investments in the merger and acquisition had a negative impact of 5 million €. The most significant share of the flow of equity participations was held by company development, with a value of 2663 million euro, or 99.5% of the shares respectively (Table 2).

In 2017, investments in the greenfield and merger and acquisition categories followed the trend in recent years, with a very low level. Thus, greenfield investments contributed only 77 million EUR to the investment flow in the equity capital of FDI enterprises, and mergers and acquisitions by 213 million EUR.

(<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, 2018)

From the point of view of the breakdown on main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards manufacturing (30.4% of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: trade (20%), construction and real estate transactions (14%), financial intermediation and insurance (12.8%).

(<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, 2013)

Table 2. Types of foreign direct investments in the 2011-2019 period

		(%)								
Year of Type investments	2011	2012	2013	2014	2015	2016	2017	2018	2019	
	Greenfield	0.7	0.7	4.1	1.8	3.1	2.4	3.4	1.4	3.0
Mergers and acquisitions	2.1	-0.2	5.5	4.6	-0.2	5.7	9.5	5.6	4.7	
Company development	97.2	99.5	50.3	35.79	56.5	24.1	35.2	35.2	29.0	
Company restructuring	-	-	40.1	57.7	40.6	67.7	51.8	57.8	63.3	

Source: Own processing of the data collected from the report *Investițiile străine directe în România în anul 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019* (Foreign direct investments in Romania in 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019) pages 12-18, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>

In 2013, the flow of equity participations in FDI enterprises was 2764 million EUR (Table 1), slightly exceeding the value recorded in the previous year (Figure 1). Investments in greenfield and merger and acquisition recorded a low level, 112 and 152 million EUR, respectively. The prevailing share in the flow of equity participations is held by company developments with a value of 1391 million EUR or 50.3% of the participations, respectively, and the company restructuring with 1109 million EUR, representing 40.1% of the participations (Table 2).

From the point of view of the distribution on the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry (33.6% of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: trade (18.2%), construction and real estate transactions (12.9%), financial intermediation and insurance (11.2%).

(<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, 2013)

In 2014, the flow of equity participations in FDI enterprises was 4222 million EUR, rising significantly compared to 2013, even exceeding the high level recorded in 2011. (Figure 1). Greenfield investments and investments in the merger and acquisition category recorded a low level of 77 and 196 million EUR, respectively. The predominant share in the flow of equity

participations in 2014 is represented by the company restructuring with a value of 2438 million EUR, i.e. 58% of the participations, and 1511 million EUR in the company development, representing 36% of the participations. The balance of foreign direct investment in greenfield enterprises, amounting to 32527 million EUR, represents 54% of the total FDI balance.

From the point of view of the distribution on the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry (31.4% of the FDI balance in greenfield enterprises). Other sectors where these investments have a significant share are: trade (17.7%), construction and real estate transactions (13%), financial intermediation and insurance (10.5%).

(<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, 2014)

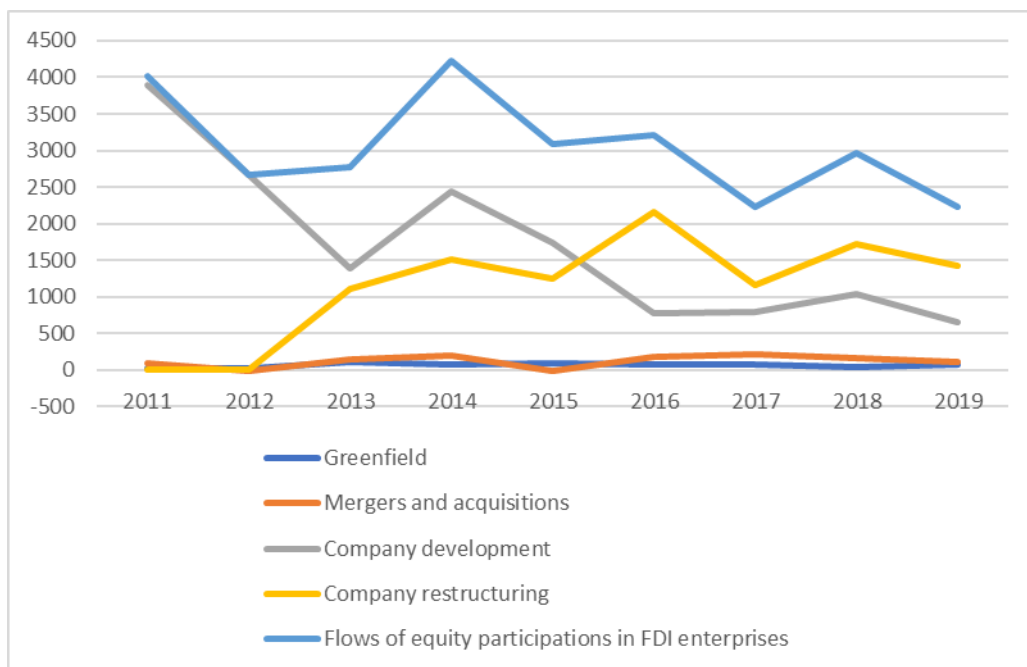


Figure 1. Evolution of types of foreign direct investment and inflows of equity participations into FDI enterprises in Romania, 2011-2019

Source: Made based on the data in Table 1.

In 2017, the flow of equity participations in FDI companies was 2235 million EUR, recording a decrease compared to 2016 and reaching the lowest value in the 2011-2017 period. (Figure 1). The predominant share in the flow of equity participations in 2017 is represented by business restructuring with 1158 million EUR, representing 52% of the participations, and by business developments with 787 million EUR, i.e. 35% of the participations, respectively.

From the point of view of the distribution on 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: constructions and real estate transactions (16.5%), trade (15.4%) and professional, scientific, technical and administrative activities and support services (8.4%).

(<http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, 2017)

3. CONCLUSIONS

Foreign investments represent a barometer of the attractiveness of the domestic business environment and reflect the perception of foreigners. They are correlated with the course of the economy and, in their turn, they can stimulate GDP. Foreign direct investments in Romania have fluctuated over time, most often keeping pace with the economic trend. [12]

The volume of foreign direct investments increased in leaps before the financial crisis, the most consistent flows being recorded in the 2004-2008 period, when the economy was rising strongly. 10 billion euros have reached Romania in the last six years, the balance of the amounts brought by foreign investors in Romania exceeding the threshold of 60 billion euros in 2014.

In 2014, an increase by 6.3 billion euros was recorded in the balance of investments from the Netherlands, Austria, and Germany, compared to 2008.

Cumulatively, the countries in the top 10 had, in the 2008-2014 period, a share of more than 80% in the total balance of foreign investments. The increase of the investment balance from the top 10 countries in the years 2008-2014 was of 7.7 billion euros.

At the end of 2014, the balance of foreign direct investments reached 60.2 billion euros (by approximately 10 billion euros more than 2008), out of which 43.2 billion euros (72%) were equity investments, including reinvested profit and 16.9 billion euros was net credit received from foreign investors.

From the point of view of their structure, in the years of crisis there was a shift in foreign investments from areas such as buildings and real estate transactions to the industrial and energy sectors. Depending on the territorial location of the registered office of the companies that benefited from foreign direct investments, the investment orientation was mainly towards the Bucharest-Ilfov region (with approximately 60% of the total balance), the value of FDI reaching here 35.6 billion eur. The central area of the country was the second position was, with 9.7% of total foreign direct investments, closely followed by the Wester region, with 7.7%. In 2014, greenfield investments and those in the mergers and acquisitions category registered a low level, of 77 million euros, respectively 196 million euros. The predominant share in the flow of equity participations in 2014 is represented by the restructuring of companies with a value of 2.4 billion euros, respectively 58% of the participations and by the developments of companies with 1.5 billion euros, representing 36% of the participations. (<https://fic.ro/Documents/view/Studiu-Investitiile-straine-directe-evolutia-si-importanta-lor-in-Romania>)

Foreign direct investment rose dramatically to a peak of 9.5 billion euros in the year 2008, when the economy grew by 7.3%. Equally spectacular, they collapsed in the crisis years. Between 2009-2010, as the economy plunged into recession, foreign direct investments fell, oscillating around 2 billion €, close to 1998. The economy returned to growth in 2011, but foreign investors did not hurry to return to Romania. 2012 was the year when net foreign direct investments returned to growth, surprisingly rising for the first time since the crisis began. The leap was of 18.7% to 2.14 billion euros. In 2013 and 2014, foreign investments remained modest, below 3 billion euros. (<https://fic.ro/Documents/view/Studiu-Investitiile-straine-directe-evolutia-si-importanta-lor-in-Romania>)

Foreign direct investments reached 2.7 billion euros in 2013, almost 27% higher than in 2012, and 2014 brought foreign investments of 2.4 billion euros, out of which 2.8 billion euros contributed to equity and 425 million euros net credit from foreign investors.

In 2017, in relation to the distribution of the FDI balance by development regions, we can see the orientation of the FDI mainly towards the BUCHAREST-ILFOV development region (60.3%), other development regions that attracted a significant volume of tge FDI being the

CENTRAL region (8.9%), the WESTERN region (8.5%), the SOUTH-WALLACHIA region (6.3%) and the NORTH-WEST region (5.6%).

The FDI balance as at 31st December, 2018 recorded the level of 81,124 million euros. This result was obtained by adding to the balance at the end of the previous year the net FDI flow, as well as the other components leading to the variations of the balance, respectively the positive/negative value differences arising from revaluations of assets expressed in foreign currencies due to exchange rate changes, the revaluation of the prices of tangible fixed assets, as well as the change in the market value of the listed FDI companies, from accounting restatements of the value of the various components of the initial balances and from corrections of the data from previous statistical reports.

In relation to the distribution of the FDI balance by development regions, we can notice the FDI orientation mainly towards the BUCHAREST-ILFOV development region (60.7%), other development regions that attracted a significant volume of FDI being the CENTRAL region (9.0%), the WESTERN region (8.6%), the SOUTH-WALLACHIA region (6.3%) and the NORTH-WESTERN region (5.7%).

In order to attract and keep FDI, while maintaining and amplifying the positive effects, we consider that two directions of action are possible:

- Increasing the absorption capacity of the economy. Certainly, as the specialised literature suggests, the positive impact of FDI in the economy of the host country depends on its absorption capacity: the quality of human capital, the degree of economic and technological development, the stability and attractiveness of legislation. Nowadays, the main sources of attractiveness for investors are the resources created, such as infrastructure or institutions, rather than endowing them with natural resources. Such efforts are not only meant to attract foreign investors, but also contribute to the economic development of the country. It will also increase the volume of investment with high added value and increased efficiency.

- The development and the implementation of a strategy to attract FDI. Romania's positive results are limited by the lack of a strategic document related to the practical stimulation of FDI, economic leverage to encourage them and remedy the low efficiency of Romanian investment attractiveness agencies, which have not suggested so far that they would have a position of force as a negotiating partner for foreign investors.

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