

# FOREIGN DIRECT INVESTMENT IN ROMANIA - PRIORITY FOR ECONOMIC DEVELOPMENT

Bogdan-Daniel, Floroiu<sup>1</sup>

## **Abstract:**

*The research developed in the present work is mainly aimed at the development of analysis of foreign direct investment in Romania present, and highlighting positive impact on the Romanian economy. Foreign direct investment has been a growth engine for the Romanian economy, bringing transnational companies and a contribution of 70% in foreign trade of Romania. Given the international economic crisis, foreign direct investment inflows fell above the European Union average, Romania's priority is to create a competitive investment climate to attract them. Therefore, considered vital to attract foreign direct investment in the economy and particularly in agriculture and tourism, as are areas that they can make an important contribution in Romania's gross domestic product, even if at the moment of their contribution is very small.*

**Key words:** FDI; transnational companies; foreign trade; tourism; agriculture; economic crisis.

**JEL Classification:** F21; F23

## **1. Introduction**

On 1 January 2007, Romania joined the European Union, which has boosted economic growth and improving the business environment in our country, taking into account the conditions will be created for attracting a large amount of foreign investment, due to the needs of development, particularly in terms of infrastructure (transport, trans-European energy networks, etc.) and agriculture, providing additional safeguards for domestic and foreign investors for business development.

Great Romania's external vulnerabilities, both negative under current international economic and financial crisis and economic disarticulation, already almost untreatable by unresolved imbalance between consumption and production operations, are above all work of foreign banks, and not foreign direct investment, which has have been the engine of growth of the Romanian economy.

In the past two years, Romania's macroeconomic indicators, such as reducing inflation, the budget deficit at a low and sustained growth of gross domestic product (GDP) have been encouraging. In recognition of these positive trends, the international rating agencies Moody's, Standard and Poor's rating significantly improved country risk for Romania.

Romania must continue the sequence of reforms, to stimulate the economic policies to attract foreign investment and attracting external funds, for economic and social development of Romania.

## **2. Swot analysis of Romania as investment destination**

The research developed in the present work is mainly focused on the development of foreign direct investment analysis present in Romania, and highlighting the positive impact on the development of Romanian economy. Main research techniques, used for the research, were investigating statistical and content analysis of major reports and publications of international organizations and institutions on Romanian foreign direct investment in Romania and the European Union, and statistical methods of analysis and interpretation of data, descriptive statistics and correlations respectively. For statistical processing of data collected, we used Excel computer software, Data Analysis module.

---

<sup>1</sup> Ph.D, email: bogdan.floroiu75@yahoo.ro

The main data sources were taken from the World Investment Report - United Nations Conference on Trade and Development (UNCTAD), the National Bank of Romania (NBR), National Institute of Statistics (NIS).

It should be noted that there is no comprehensive analysis of the role of foreign investment, notably those made by transnational companies (or multinational) in the economy of Romania. Such analysis simply missing, despite a massive part of the economy is under foreign control (use half the oil and gas resources, distribution of gas and electricity, cement and steel production, telecommunications, the entire banking system insurance). Economic research institutes of the state and private centers will have to make further studies in this area.

Unfortunately, government institutions involved in the field remain at the surface of things, contenting himself with details on the categories of products and activities without understanding the research to highlight the dynamics of exports and imports of transnational firms and export dependence, respectively, imports of achievements transnational and foreign capital, generally.

Surveys and assessments conducted by national organizations and international confirm that yet, corruption remains a serious and widespread problem that affects many aspects of society, including climate.

Corruption Perceptions Index ranks countries according to the degree to which corruption is perceived existence among public officials and politicians. It is a composite index, based on 10 different polls and surveys carried out by several renowned institutions, that ranks 180 countries in terms of the degree to which corruption is perceived. It reflects the views of business people and analysts from around the world, including experts from the countries evaluated.

Since 1997, Romania was one of the worst ranked countries in the region and consistently the last candidate countries. In the report for 2012, Romania is ranked 66 with a CPI score of 44 points out of 100, making a significant score improvement, over the global average score which is 43, surpassing other EU countries: Italy - 72nd, Bulgaria – 75th and Greece – 94th.

The World Bank analysis shows that transnational companies decide to invest in a country after closer inspection, based on specific criteria: political uncertainty, macroeconomic instability, law, the taxes, corruption, etc.

For Romania the following hotspots are identified: high level of corruption, macroeconomic instability, high taxes, etc..

Although, Romania has a number of advantages: a member of the EU, internal market size, resource availability and access to export markets, political stability, cheap labor, etc., - lack of consistency and firmness of the authorities in the implementation of economic policy, inadequate infrastructure, an inefficient and corrupt government bureaucracy - are factors that discourage investment activities of transnational companies.

Economic policies must be made: to support and build the capacity of SMEs, to efficient agriculture, environmental protection, poverty reduction and social exclusion, taking action so as to avoid many dangers such as: higher exposure competition in globalized markets, strengthening Romania's image as an economy focused on sectors with low added value, migration of industries to foreign locations with lower costs, external migration of workers with a high educational level, climate change and environmental degradation (table 1).

But developments in the last two years shows that, apparently, Romania has come out of "the shadow" and start becoming a more advantageous location for foreign investment, as shown by a series of studies conducted by national institutions and international organizations.

**Table no. 1. SWOT analysis of Romania's attractiveness as investment destination**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>◆ macroeconomic stability</li> <li>◆ labor-intensive, low-cost and an acceptable level of initial education</li> <li>◆ natural resources</li> <li>◆ energy</li> <li>◆ a series of successful sectors in manufacturing and primary sector</li> <li>◆ number of specialist ICT</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>◆ concentration in low value added sectors / strategies based on low cost</li> <li>◆ low level of research and development and innovation and fragile link with economy</li> <li>◆ weak entrepreneurial culture developed / underdeveloped SME base</li> <li>◆ low capacity of SMEs</li> <li>◆ difficult access to finance and information in business</li> <li>◆ low degree of sophistication of the market</li> <li>◆ high energy intensity</li> <li>◆ outdated technology / high production cost (less labor costs)</li> <li>◆ degraded infrastructure and insufficient / low accessibility inside and outside the country</li> <li>◆ inadequate environmental management (including in terms of infrastructure)</li> <li>◆ inefficient agriculture (labour intensive), excessively fragmented agricultural area</li> <li>◆ underdeveloped tourism infrastructure and inadequate marketing</li> <li>◆ reduced adaptability of the labor force and low lifelong scholars</li> <li>◆ important segment of the population affected by poverty and social exclusion</li> <li>◆ underdeveloped administrative capacity</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>◆ EU accession</li> <li>◆ size (the second most populous country in the NMS 10 +2)</li> <li>◆ new sources of investment, including the Structural and Cohesion Funds</li> <li>◆ FDI</li> <li>◆ Romania as a tourist destination-tourism niche</li> <li>◆ potential regional hub in the transportation of natural gas and electricity</li> <li>◆ full liberalization of public procurement</li> <li>◆ market liberalization and modernization business models</li> <li>◆ development of business infrastructure</li> <li>◆ e-commerce/ e-governance</li> <li>◆ modernization of agriculture</li> <li>◆ modernization of the capital and other key urban centers</li> <li>◆ need / accept the need for change</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>◆ greater exposure to competition on global markets</li> <li>◆ long periods of stagnation / decline at european or global economic</li> <li>◆ migration of industries to foreign locations with lower costs</li> <li>◆ strengthening position / image of Romania as an economy focused on sectors with low added value</li> <li>◆ external migration of workers with a high educational level</li> <li>◆ climate change / environmental degradation</li> </ul>

UNCTAD has regularly published its FDI Attraction and Potential Indices in its annual World Investment Report since 2002. The Inward FDI Attraction Index ranks countries by the FDI they receive in absolute terms and relative to their economic size. It is the average of a country's rankings in FDI inflows and in FDI inflows as a share of GDP.

FDI potential index is based on 12 economic and policy variables, and covers 141 countries, according to UNCTAD methodology. All countries that have index below 70 are not considered efficient economy. Romania's economy has a low index of potential FDI, as foreign investors assessments (table no 2).

**Table no. 2. Romania rankings by Inward FDI Performance Index, Inward FDI Potential Index 2007-2010**

Year	Inward FDI Performance Index	Inward FDI Potential Index
2007	57	65
2008	42	64
2009	63	60
2010	73	...

Source: [http://www.unctad.org/Sections/dite\\_dir/docs/WIR11\\_web%20tab%2028.pdf](http://www.unctad.org/Sections/dite_dir/docs/WIR11_web%20tab%2028.pdf)

FDI performance index measures the impact of FDI on the host economy development, Romania is more than expected by FDI performance index, in the opinion of foreign investors.

FDI contribution index classifies economies by taking FDI TNCs subsidiaries in host countries economy. Comparing FDI Contribution Index, the share of FDI stock in GDP of a country, Romania ranks 4th in 2009 after Hungary, Belgium and the Czech Republic.

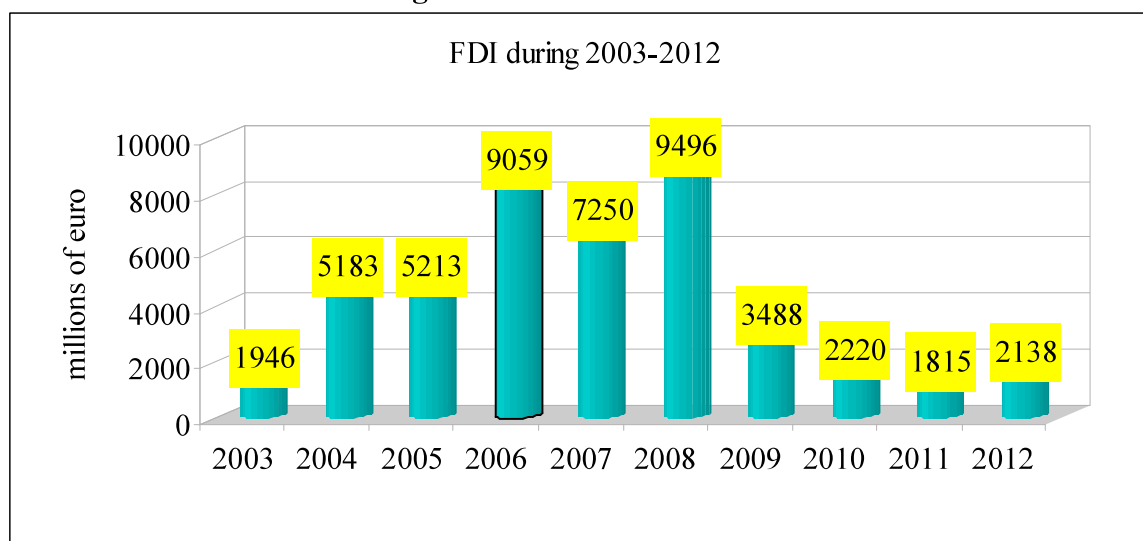
### 3. Evolution and role of FDI in Romania

Foreign investment at 31 December 2012 is 59.1 billion euros.

The first four countries ranked by the share of FDI in Romania on 31 December 2012 are: Netherlands (22.4%), Austria (18.5%) Germany (11.0%) and France (8.9%) remaining orders unchanged from 2009.

FDI inflows in 2003-2006 showed 21.4 billion euros, in 2007-2012 registering inputs only 26.4 billion euros, although Romania joined the EU on 1 January 2007 (Figure 1).

**Figure no. 1. FDI in Romania**



Source: processed by the author on official data from National Bank of Romania

Due to recession in major countries providing foreign direct investment and generally, international financial crisis, inflows of foreign direct investment in Romania in 2009-2012, was only 9.7 billion euros, falling on average by over 80% the level of FDI inflows in 2008, the situation is worrying because it exceeds by far the EU fall and worldwide.

Thus, in developed countries, including the European Union, FDI inflows were recorded in 2009-2012, a decrease of 50% of the FDI inflows in 2008. Globally, the situation is better in the crisis, FDI inflows declined only 30% of the FDI inflows in 2008. This is mainly due to the fact that Latin America and East Asia and South-East made the

most important contribution in 2009-2012, registering an increase of over 50% and 30% of FDI in 2008.

The UNCTAD report 2008 for the first time, Romania is officially classified in the category of developed countries, ranking 13th in EU by FDI attracted. Unfortunately, in the 2013 report, Romania dropped to place 17 of the 27 EU member states as the level of FDI attracted in 2012.

National Bank of Romania has made since 2006 a statistical survey on foreign direct investment, together with NIS. In the period 2006-2012 were investigated resident direct investment enterprises (foreign investor holds at least 10% of share capital), which exhaustively researched - average 7.117 companies, that have provided an average share of 90% in FDI on 31 December 2012.

Import-export activity of companies FDI has had a positive impact in the period studied, their contribution to exports averaging 71%, while the contribution of imports averaged 61% (table no 3).

**Table no. 3. Exports FDI enterprises during 2009-2012 millions of euros**

EXPORTS (FOB)	2009		2010		2011		2012	
Total, of which:	19.643	69,8	25.950	72,4	31.418	71,4	30.672	70,3
Industry, of which	17.264	79,3	22.887	63,8	27.257	61,9	26.429	60,6
Manufacturing	16.440	79,7	21.934	61,2	26.135	59,3	25.327	58,1
Retail and wholesale	1.827	51,7	2.495	7,0	3.338	7,6	3.546	8,1
Other activities	552	19,3	3	0,0	2	0,0	3	0,0

Source: <http://www.bnro.ro/PublicationDocuments.aspx?icid=9403>

The results of this study are similar to global data, where about two thirds of world trade is carried out by TNCs.

According to official statistics, during 2007-2012, on average 71% of Romania's foreign trade (71% of exports and 72% of imports) was conducted with members of the European Union.

In the period studied, the top three countries of destination for Romanian exports were Germany (18%), Italy (12%), France (7%).

On import, the three Romanian partner countries were Germany (17%), Italy (12%), Hungary (9%).

#### **4. Priorities**

Romania needs primarily by foreign direct investment, which would ensure economic growth and competitiveness by creating new jobs, increasing income, export promotion and a transfer of knowledge and technologies, integration into the European economic system and worldwide.

For this, it is necessary to create a good investment climate, for foreign investors are important: the size of the internal market, the existence of significant natural resources, cheap labor, the possibility of access to foreign markets, domestic economic liberalization policies, the technical progress and quality human resources, elimination of corruption and bureaucracy etc.

Under normal circumstances, government intervention is required to be minimal. But if the current crisis in mitigating the impact of state involvement is paramount. The state capital injections may involve the financial sector, public investment programs in infrastructure, facilitating exports, ie the actions that would invigorate economic activity.

In Romania, the government policies and measures should be aimed at improving the business environment, creating opportunities in the manufacturing sector, more competitive, especially those for exports.

Romania has an urgent need for massive foreign investment in industry and agriculture, infrastructure (construction of modern roads and highways will contribute to tourism development).

To achieve these objectives, it requires effective government policies that lead to increased absorption of external grants awarded by the EU, operational programs accessing the fields funds will contribute to economic growth and development of Romania. We have convincing example of Poland, only UE country which was not affected by the economic crisis and because it had a very high degree of absorption of external funds.

Unfortunately, for Romania, the extent of absorption is currently only 25% (10% during 2007-2012) of external funds for operational programmes 2007-2013.

We believe that attracting foreign direct investment and external grants in agriculture and tourism is a priority, because they are areas that can make a big contribution in Romania's GDP, even if at the moment of their contribution is very small.

#### ***4.1. Tourism***

Foreign direct investment at 31 December 2012 in agriculture and tourism accounted for only 2.4% and 0.6% of total FDI.

At this point, the direct contribution of tourism to gross domestic product (GDP) is about 1.5%, below the world average of 5.2%.

According to WEF Report 2013, Romania ranks 35 in the region and 68 worldwide on the degree of competitiveness in tourism (table no 4).

Situation number of foreign tourists in Romania is worrisome, compared to neighbors in the area. In 2011, Bulgaria had 4 times more foreign tourists than Romania, of which 1 million people were Romanian tourists in Bulgaria.

Tourism can play an important role in the economy, but with substantial investment and effort bolstered by the authorities.

The measures set out in the national development program aims to:

- ◆ sustainable exploitation of cultural heritage and natural resources with tourism potential;
- ◆ improving the quality of tourism and leisure infrastructure will create new jobs and develop local economies;
- ◆ arranging sightseeing natural tourism potential (canyons, gorges, caves, glacial lakes, Delta etc.) under permanent monitoring of environmental pressure;
- ◆ exploitation of mountain tourism, including arrangement of access, camping sites and alpine huts, marked walking trails, installing rescue posts;
- ◆ development of health tourism, by creating a network that provide complex wellness, promote gerontological treatment medication and original Romanian.
- ◆ promoting a positive image of Romania, defining national tourism brand, achieving a unified tourism information and statistics on-line.

**Table no. 4. Top 20 regional competitiveness in tourism**

Country	Regional Index	World Index	Number of foreign tourists (million of people)	Revenue received (millions of dollars)
Cyprus	19	29	2,4	2,5
Estonia	20	30	2,7	1,3
Czech Republic	21	31	8,8	7,6
Greece	22	32	16,4	14,6
Croatia	23	35	9,9	9,4
Slovenia	24	36	2,0	2,7
Hungary	25	39	10,3	5,6
Montenegro	26	40	1,2	0,8
Poland	27	42	13,4	10,7
Turkey	28	46	34,0	23,0
Latvia	29	48	1,5	0,8
Lithuania	30	49	1,8	1,4
Bulgaria	31	50	6,3	4,0
Slovak Republic	32	54	1,5	2,4
Russian Federation	33	63	22,7	11,4
Georgia	34	66	2,8	1,0
Romania	35	68	1,5	1,4
Macedonia, FYR	36	75	0,3	0,2
Ukraine	37	76	21,4	4,3
Albania	38	77	2,9	1,6

Source: World Economic Forum, The travel & Tourism Competitiveness Report 2013

Romania, as a country brand, is positioned at 100 in a sample of 118 countries, according to the latest survey conducted by Future Brand.

Attracting a large number of foreigners in the country can be achieved by promoting Romania *"as a destination more accessible in terms of price."*

Romanian loses for not knowing to attract Moldovan neighbors, that come in a very small number in the country. In one year, Romania is visited by thousands of tourists only a very small number, as distinguished specialists in the field. Favorite travel packages Moldovan tourists in the country are, especially, the mountain tourism (especially resorts in the Prahova Valley, Predeal and Poiana Brasov) and rural tourism, the first being Bran-Moeciu. On the other hand, the Romanian seaside is unknown for Moldovan tourists who prefer to spend their holidays at the seaside in Bulgaria.

Romanian northern coast has greatly expanded, modern hotels and clubs, cultural and sporting events, but to the south have made major investments.

The south coast to support, bear in mind that the beaches have nothing to look at state institutions, but must be managed by the hotel owners. They must decide and ensure the necessary investments for the beaches do not become places filled with garbage or space for vendors nonsense. Also, every resort in the south must have a proper zoning plan, clear to explain how each resort will show over 20 years and the directions of development.

In addition, the south coast needs an unconventional promotion, using new ideas and technological means, adapted to modern tourists today. South not to be forgotten or neglected area, because this area is huge potential. South coast is targeting customers of normal financial condition, who save for a year to afford a stay at sea. These customers deserve quality services for their efforts during the year and that turned into Romanian seaside, which is why, must not disappoint them.

Southern coastline covers 25 percent of the Romanian tourism accommodation and 50 per cent of accommodation across the coastline. This 50 percent was damaged in recent years by the lack of investment. Irrigation of green areas is needed to take resort in vegetation. The disappearance of the green belt that adorned resorts south means the loss

of a mark which was the pride of the area. Bulgarian neighbors have taken the example of Turkey and developed the "all inclusive" for the big hotels, which contributed to the increase in the number of foreign tourists, especially, Germans.

#### ***4.2. Transport infrastructure***

One area, that is closely linked to the development of tourism, is transport infrastructure.

Romania currently has 530 km, of which: 135 km built before 1989, 110 km representing A1 Bucharest-Pitesti highway built in 1972. So, Romania can boast only the construction of a highway - A2 Bucharest-Constanta 203 km, of which 25 km the Fetesti-Cernavoda was built in 1987.

Romania has built in 23 years of the revolution, on average 17 km highway per year, with a minimum cost of € 5 million / km, more than twice the Bulgarian neighbors.

It is imperative to complete construction Transylvania highway. Project Transylvania Highway, the route Brasov-Bors, started in 2004, under a contract with a value of EUR 2.2 billion euros for the U.S. company Bechtel. After 11 years of signing the contract, the Romanian state has 52 kilometers of highway in operation and 1.4 billion euros already paid, in 2013 the Romanian government terminated the contract with the American company Bechtel.

Romania's planned 2020 construction of 836 km of highway, of which: 473 km to complete the highway A3 Transylvania, 363 km to complete A1 Bucharest-Nădlac.

Investment infrastructure will facilitate the mobility of people and goods between regions and within them, reducing transport costs for goods and passengers, increase business efficiency, improve access to regional markets, increasing the number of tourists.

#### ***4.3. Agriculture***

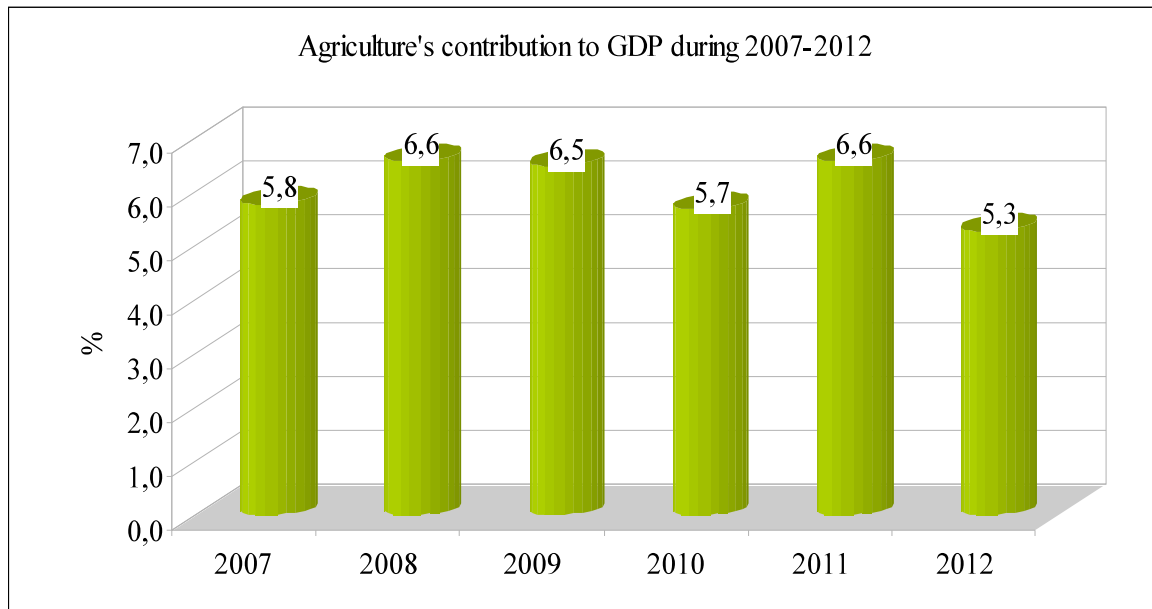
In agriculture, according to official data, during 2007-2012, an average of about 30% of the employed population working in agriculture, with an average contribution of just 6% of GDP (figure no 2). Net investments in this area was only 4% for the period.

Main objectives will be met for development of improved agriculture:

- ◆ development of competitiveness of agriculture, forestry and fisheries based on knowledge and private initiative;
- ◆ reduction of employment in agriculture in conjunction with the creation of viable farms;
- ◆ reducing the fragmentation of agricultural land and stimulating concentration of small farms;
- ◆ maintaining the quality and diversity of the countryside and forest, seeking a balance between human activities and natural resource conservation;
- ◆ measures to support producers to adapt agriculture to climate change;
- ◆ establishment or product, including biomass and biofuels;
- ◆ development of niche food production, organic and traditional products, to protect the name, recipe cooking procedures and appropriate promotion;
- ◆ stimulating the formation of producer groups and agri-food sector, encouraging subsistence farms to enter the market, modernization of agricultural holdings;
- ◆ improve product quality and increase the performance of food industries;
- ◆ conservation and improvement of natural resources and habitats by encouraging use agricultural production methods compatible with environmental protection, biodiversity conservation and improving water quality soil and landscape.



**Figure no. 2. Contribution of agriculture to GDP creation during 2007-2012**



Source: processed by the author on official data from National Institute of Statistics

## 5. Conclusions

Any country, wishing to benefit from foreign direct investment, must create an appropriate business environment. In this context, we can mention that the positive trends in recent years show that the Romanian economy, largely, adapt to market conditions.

In Romania, the government policies and measures should be aimed at improving the business environment, creating opportunities in the manufacturing sector, more competitive, especially those for exports.

The fact is that foreign investments are beneficial for any economy and therefore for the Romanian, as in countries where they found a favorable environment and were heavily involved, the rapid pace of economic growth and welfare have become essential feature in relation to negative.

Therefore, attracting them is the vital solution for the Romanian economy.

Remains a priority and increasing absorption in attracting external grants for projects, that will contribute to the development of the Romanian society.

## Bibliography:

1. UNCTAD, *World Investment Report 2012: Toward a new generation of investment policies*, Geneva, 2012
2. UNCTAD, *World Investment Report 2013: Global value chains: Investment and trade development*, Geneva, 2013
3. World Economic Forum, *The travel & Tourism Competitiveness Report 2013: Reducing barriers to economic growth and job creation*, Geneva, 2013
4. <http://www.bnro.ro/PublicationDocuments.aspx?icid=9403>
5. <http://www.cnadnr.ro/proiecte.php?tip=79>
6. [http://www.dce.gov.ro/Materiale%20site/Sinteza/Indic\\_com\\_ext.htm](http://www.dce.gov.ro/Materiale%20site/Sinteza/Indic_com_ext.htm)
7. <http://www.insse.ro/cms/rw/pages/romania%20in%20cifre.ro.do>
8. <http://strategia.ncsd.ro>
9. [http://www.unctad.org/Sections/dite\\_dir/docs/WIR11\\_web%20tab%2028.pdf](http://www.unctad.org/Sections/dite_dir/docs/WIR11_web%20tab%2028.pdf)