

# STRUCTURE AND DYNAMICS OF DIRECT FOREIGN INVESTMENTS IN ROMANIA

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**Abstract:** The issue of direct foreign investments is given a growing importance today due to the fact that they are considered as the main factor capable of stimulating economic growth. Starting from the hypothesis that enlarged direct foreign investment fluxes bring both economic and social benefits for the economy of a host-country, we consider that access to such investments should be a priority as well as a necessity.

Accordingly, the hereby paper intends to set forth the level and evolution of direct foreign investments in Romania during the present period, to analyze the manner of distributing such investments depending on economy's types of activities, and territory units. And last, but not least, to approach the level of foreign investments according to their origin country.

At the same time, the paper attempts at displaying a few positive features that would recommend our country as a recipient of significant fluxes of foreign investments.

**JEL classification:** F21, F43

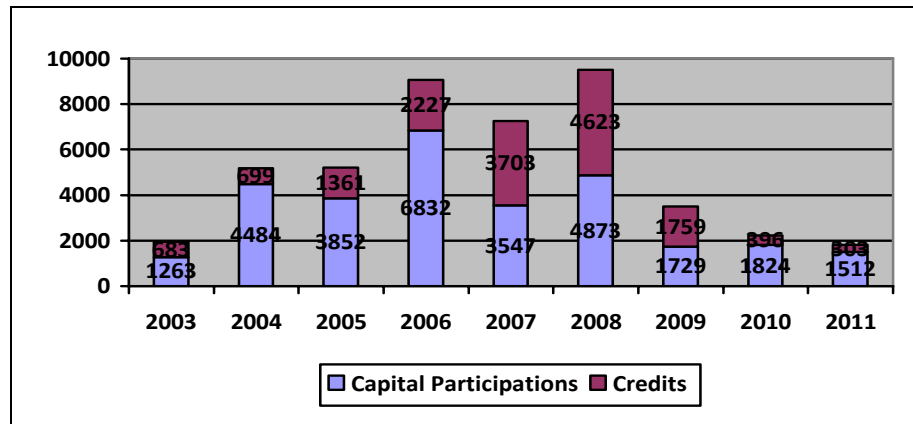
**Key words:** direct foreign investments, cash-flow, economic growth, living standard

## 1. INTRODUCTION

It is well-known that direct foreign investments (DFI) bring an essential contribution to the economic growth and development of all countries. DFI determine a series of positive effects in the host – country such as: creating new jobs, supporting economic growth, stimulating internal investments, allowing the optimal capitalization of resources, stimulating trade, supporting the increase of budget incomes, implementing new technologies, etc.; all these finally determine the improvement of the living standard of the host-country's citizens.

## 2. EVOLUTION OF DFI IN ROMANIA DURING THE PERIOD 2003-2011

During the period following December 1989, the amount of DFI witnessed a relatively rapid increase in Romania due to the fact that, on the one hand, Romania represented a new market with a high development potential for foreign investors; on the other hand, foreign investors realized the high profit opportunities they could capitalize in our country, either through *greenfield* investments or through buying (fusions and acquisitions) or portfolio investments on the emergent capital market. An exception is the current period when the effects of the economic crisis are felt both by national economy and by the economies of the other states.



Source: [www.bnr.ro](http://www.bnr.ro)

Figure no. 1

### Evolution of DFI fluxes as capital participations and crediting during the period 2003-2011

The yearly fluxes of DFI representing participations to capital and credits (Figure no. 1), during the period 2003-2011, in Romania, had an evolution characterized by the following sub-periods:

- **2003-2006**, when the total yearly fluxes of DFI increased from 1.96 billion Euro to 9.05 billion Euro due to the important privatizations in the Romanian banking and industrial fields (petroleum and petro-chemistry, metallurgy, machines building);
- **2007-2008**, when they continued the privatizations in the banking, utilities, and energy fields; in 2008, DFI reached the maximal amount of the analyzed period, namely 9.49 billion Euro;
- **2009-2011**, when the total amount of DFI dramatically dropped as compared with the previous years, attaining 1.81 billion in 2011 Euro in 2011, as a result of the impact of the economic and financial crisis.

### 3. DISTRIBUTION OF DFI ACCORDING TO THE MAIN ECONOMIC ACTIVITIES DURING THE PERIOD 2007-2011

The dynamics of DFI according to the main economic activities, during the analyzed period, witnessed two landmarks: on the one hand, Romania's integration within the European Union in 2007 and, on the other one, the out - coming of the financial and economic crisis whose starting point was year 2008. Accordingly, despite the opinion of a series of specialists who consider that our country's integration within the European structures would bring a significant DFI flux determining economic growth, economic crisis seriously affected the economies of most member states of the European Union determining an important decrease of DFI towards Romania.

During the analyzed interval (Table no.1), the structure of DFI according to economic activities reveals the following major aspects:

- The most important share is detained by DFI in the processing industry representing a constant percent of 31%. Let's notice the large sums invested in metallurgy, crude oil processing, and plastics;
- The activities of financial intermediations and insurances detain the second position as regards their capacity of attracting DFI and represent an average share of 19%. Let's notice that during the analyzed period the amount of the DFI in this type of

activities witnessed a diminishing; the fact may be a result of the instability of financial and currency markets, especially during the period 2009-2011;

- Trade activities, as the buildings and real estate ones, also witnessed an important amount of DFI, detaining the third place as regards investments amount and representing a share of 13%, namely 11%. While the amount of DFI in trade activities witnessed a relatively constant evolution, DFI in building and real estate fields displayed a sinuous evolution. Accordingly, while during the period 2008-2009, the amount of DFI doubled as compared with year 2006 (Romania witnessing at the time a period of economic growth), between 2010 and 2011 the effects of the economic crisis were seriously felt on the real estate market so that the amount of DFI significantly decreased;

- It is also quite important to notice the interest of foreign investors in activities that target information technology and communications. The investments flux in this field is relatively constant during the whole analyzed period and represents about 6.5% out of the total amount of DFI in Romania;

- The other activities of the national economy do not represent fields of interest for foreign investors, their share within the total amount of DFI being insignificant.

**Table no. 1 Direct foreign investment in Romania during the period 2007-2010  
(the end of the year) according to the main economic activities**

*- billion Euro -*

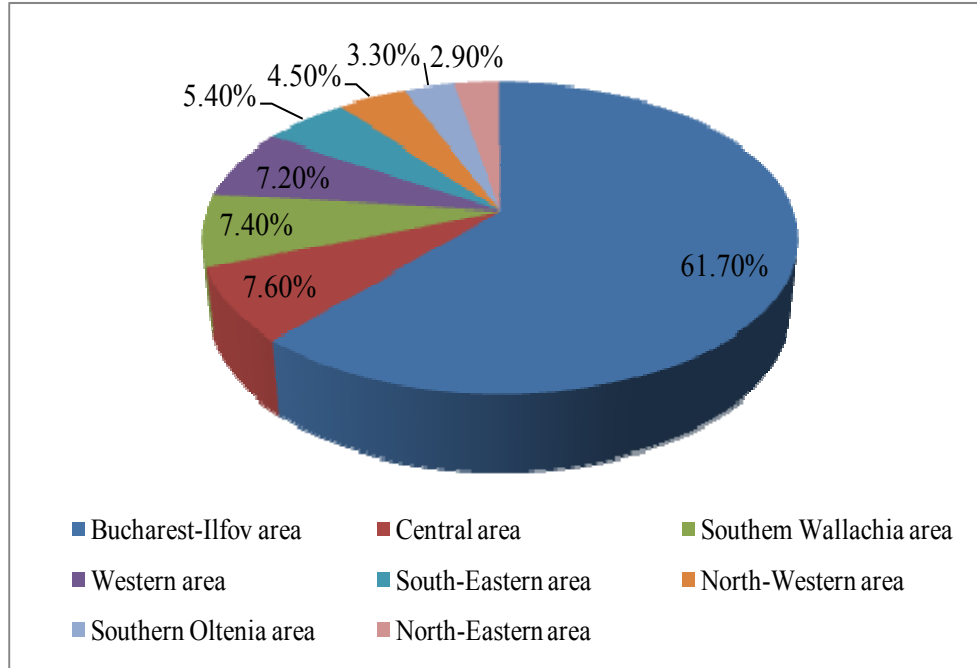
	2007		2008		2009		2010		2011	
	Total		Total		Total		Total		Total	
	Amount	% out of DFI	Amount	% out of DFI	Amount	% out of DFI	Amount	% out of DFI	Amount	% out of DFI
<b>TOTAL out of which:</b>	42.7	100	48.7	100	49.9	100	52.5	100	55.1	100
Industry	17.4	40.7	20.1	41.3	20.6	41.4	23.0	43.9	24.4	44.4
Extractive industry	2.04	4.8	2.15	4.4	2.2	4.5	2.3	4.5	2.7	5.0
Processing industry	14.0	32.9	15.2	31.3	15.5	31.1	16.8	32.0	17.3	31.5
Financial intermediations and insurances	9.9	23.3	10.0	20.5	9.5	19.0	10.0	19.1	10.0	18.2
Retail and gross trade	5.9	14.0	6.0	12.4	6.1	12.3	6.5	12.4	6.2	11.4
Buildings and real estate transactions	3.3	7.8	6.1	12.6	6.4	12.9	4.7	9.0	5.8	10.7
Information technology and communications	2.7	6.5	3.2	6.7	3.2	6.5	3.0	5.9	2.9	5.4
Transports	0.52	1.2	0.50	1.0	0.68	1.4	0.78	1.5	0.78	1.4
Hotels and restaurants	0.27	0.6	0.18	0.4	0.21	0.4	0.41	0.8	0.43	0.8
Agriculture, sylviculture, fishing	0.60	1.4	0.70	1.4	0.55	1.1	1.06	2.0	1.31	2.4

Other activities	0.57	1.4	0.13	0.4	0.19	0.5	0.25	0.5	0.26	0.5
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Source: BNR and INS data

#### 4. TERRITORY DISTRIBUTION OF DFI

The distribution of DFI on development areas, according to the data provided by BNR (National Bank of Romania), is no more a surprise. It is well-known that Bucharest-Ilfov area detains the most important part of DFI, the other regions ranging far away (Figure no.2)



Source: www.bnr.ro

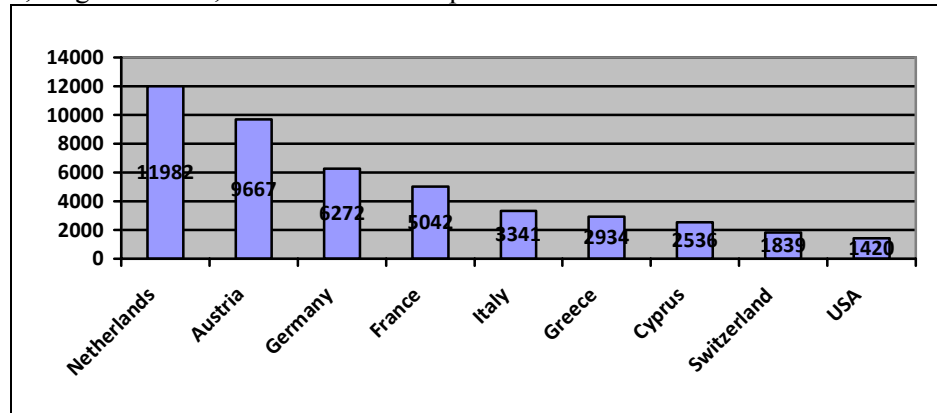
**Figure no. 2**  
**Distribution of DFI on development areas**

After Bucharest-Ilfov development area, foreign investors' attention target the central area, Southern Wallachia and Western areas which manage to detain about 7.5% out of the total amount of DFI. At the opposite pole one can see regions such as Southern Oltenia and the North-Eastern areas which are not attractive for investments and hardly reach an average 3% out of the amount of DFI.

In other words, we are entitled to state that DFI, owing to their main distribution on certain development areas in the detriment of the others, may determine unwanted economic inequities; such inequities are strongly counteracted by the Sector Operational Program (SOP) and mainly by the 2007-2013 Operational Program for Regional Development which is co-financed by structural funds and social cohesions funds.

#### 5. THE LEVEL OF DFIS' DISTRIBUTION ACCORDING TO ORIGIN COUNTRIES

The distribution of DFI depending on capital's origin countries shows an unequal distribution among countries and an increased amount in certain countries belonging to the European Union area; the causes of such disparities are linked to traditions, neighborhoods, and economic complement characteristics.



Source: [www.bnr.ro](http://www.bnr.ro)

**Figure no. 3**  
**DFI distribution according to origin countries, December 31<sup>st</sup>, 2011**  
**(million Euro)**

The first five countries of the distribution according to their share in the rest of DFI on December 31<sup>st</sup>, 2011 are the following ones: The Netherlands (21.7%), Austria (17.5%), Germany (11.4%), France (9.1%) and Italy (6.1%); the hierarchy was constant during the previous years.

As one may notice in Figure no.3, most part of DFI in Romania have their origin in the countries members of the EU (over 70%); this fact determines a certain economic dependence of our country on the economic evolution of those states, their economic environment determining an important impact on Romanian economy.

## 6. CONCLUSIONS

DFI represent an essential element of economic development in all countries and of economies functioning according to the principles of market economy. Their contribution to the strengthening of host-countries' economies and their integration within world economy is quite important. DFI support the process of modernizing national economies through implementing advanced technologies, know-how, new standards of quality, determining an intense economic growth.

As regards the dynamics and structure of DFI in Romania, the analysis displays a series of conclusions:

- During the period 2003-2008, Romania witnessed a significant flux of DFI displaying an ascendant trend;
- Period 2009-2011 showed a decrease of DFI largely due to the effects of the economic crisis that affected the economies of most states;

- The activities of national economy that attracted the most important flux of DFI are those belonging to processing industry, to the field of financial intermediations and insurances as well as to trade and building fields;

- Bucharest-Ilfov area concentrates the most important amount of DFI as compared with the other regions; the less attractive area is the North-Eastern region;

- As regards the origin countries of foreign investors, let's notice the significant share detained by the states members of the EU, with The Netherlands in first position.

At present, Romania displays a series of advantages that recommends it with a view of attraction DFI, such as: good geographical position; skilled labor and moderate labor costs; rich natural resources; a tourist potential which is not enough turned to good account; a state member of EU and NATO; a country member of World Trade Organization; continually developing infra-structure; opportunities of sea and river transportation; a wide range of international banks, etc.

Nevertheless, we consider that, in the future, Romania should provide a solid background favoring economic environment through promoting certain coordinates capable of attracting foreign investors as well as certain positive fiscal measures that represent a main condition of bringing an enlarged amount of DFI.

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