THE CURRENT SITUATIONS OF FDI IN ROMANIA

Yuanyuan SUI,
Ocean University of China
Han ZHANG,
Ocean University of China

ABSTRACT

In the process of early industrialization and modernization in Romania, FDI played an important role. In the period of socialist planned economy, FDI was totally banned. After 1989, the period of economic transformation, Romania pays attention to and actively makes use of foreign capital. The FDI continues to inflow into Romania. There are several characteristics displayed on FDI, such as enterprise scale polarization, unequal geographical distribution and source distribution, the gradual lost of low cost advantage factors and the low degree of FDI into local economic. Also, some industries to Chinese companies, there are good investment opportunities and prospects in Romania, mainly telecommunications, new energy, infrastructure construction, modern agriculture etc.

Keywords: current situations ; Romania ; FDI.

Introduction

The brief review of FDI on Romania

a) the period of early industrialization FDI plays vital role

Romania was established in 1859 composed by two parts: Moldova and Valahia. Due to long-term control under the Ottoman Empire, compared with other central and eastern European countries, economy in Romania is very backward. Agriculture is the pillar industry of Romania. Except some handicraft workshops, there are hardly any industries. In the 19th century first half, explosive growth of some industries began, such as drilling industry in circum of Ploiesti. In 1878, Romania achieved full independence. After that, its industrialization began to accelerate and then small-scale industrial system was founded, such as food processing, textile, leather, wood processing. During that period, the foreign capital has played an important role. In 1864, British petroleum industry started to invest in Romania, the Valahia oil industry co was founded, which symbolizes the first step that a large-scale foreign capital was used in Romania. After 1895, the foreign investment on Romania exploded. The mining law allows foreign investment in mineral resources. By 1914, 92 foreign enterprises from 9 countries invested into the oil sector, accounting for 92% of the investment in industry sector. In addition, wood processing, metallurgy, chemical industry, food processing and sugar and other sectors also have foreign investment.[1]Plus, for the foreign capital, the banking industry to foreign investment also are appealing. In 1911, assets of 4 foreign Banks equal the sum total assets of the top 9 domestic bank. Began in 1886 and Executed in 1906, the protectionist policies also encourage foreign companies to invest directly instead of exports. In 1914, foreign investment accounts for about 70% of the total investment in Romania in whole. As the foreign investors, Germany was in the first place, followed by the Netherlands, the UK and the Austro-Hungarian Empire.

By 1910, Romania has 168 joint ventures and 80% capital comes from overseas invested usually by the Romanian immigrant investors who bring capital and technology. In many enterprise managers and skilled workers are immigrants.[2] After world war i, from the Austro-Hungarian Empire, Russia and Bulgaria, Romania obtained large areas. Its land territory and population are double than before the war. Transylvania region developed more than other areas, even though located in the border of Austro-Hungarian Empire. Due to a considerable coal, iron and non-metallic mineral reserves, metallurgy industry in Transylvania developed and some heavy industry sector emerged. After the second world war, most companies of Germany and Austria-Hungary are occupied by British and French. Rest is taken over by Romania. The ruling liberal took policies to encourage foreign companies to localize. In order to avoid the threat of state-owned enterprise, the joint venture's actual owner often hid behind the name of owner in Romania, so it is difficult to accurately count the foreign companies and investment. In spite of this, in 1921-1938, the number of foreign companies is more double than before. During the great depression in 1923-1933, Romanian FDI inflows continued to grow. According to statistics, in the 1930 s, foreign investment accounts for 21% of the national economy and accounted for 40.5% of large enterprises.

Unquestionably, in the process of industrialization and modernization FDI has played a significant impact, but at the same time, there are some limitations: first of all, the new investment from abroad is less and many of the investment are reinvestment from the profit. Also mostly equipments and technology are outdated and the technology and knowledge adopted by minority foreign companies is seldom "spilled over" to the domestic companies. Secondly, the foreign capital may crowd out domestic investment space. Thirdly, many investments just focus on looking for a market rather than to export value-added products. Some foreign trade companies just sell its product imported from Romania. Lease but not the last, as the most important mineral resources are controlled by foreign company, which worries the

Romania, making highly dependent on the west, thereby weakening its political autonomy.[3]

b) the period of the socialist a total ban on foreign direct investment After world war II, like the Soviet mode, Romania began socialist construction, and give up the market system for centralized system. According to the central planning to arrange all production activities, farmers were forced to give up land and livestock to join co-operation. All foreign companies founded before the world war II are nationlised. Under the mode of the Soviet Union, the focus of the economic development is on the industry, especially on heavy industry, as well as all the countries of Eastern Europe, In accordance with the same model, without considering characteristics of the resource, throughout the 1950 s and 60 s, there were not foreign investment at all. The planned economy system benefits the Czech Republic, Soviet Union and the democratic Germany which have completed the industrialization. However, the Balkans base on agriculture and industries are weak. Aware of this, Romania try to boycott of the system and reduce the dependence of the Soviet Union with many efforts to develop trade with western countries and make the national economy more diverse. Under this background, in 1971, the first regulation was executed to encourage international economic cooperation and technical cooperation. In fact, Romania was the first socialist country to allow the joint venture to attract foreign capital, much earlier than China. Before 1990, foreign investment access is restricted to a few sectors. To obtain foreign advanced technology is regarded as the most critical factors, because it is almost impossible to obtain by other way. In any case, the foreign share shall not exceed 49% of the total.

The first participator is the French Renault, this project is not for economic motivation, but the political purpose that French government is trying to expand political impact on that region. From 1972 to 1975, other joint venture set up in succession, including computer manufacturing, shipbuilding, chemical industry, etc. Whereas, these industries make little influence on economy, especially on technology transfer. In the 1980 s, Xerox, ABB, Siemens also opened offices in Romania. Although this kind of investment is not profitable, they help be familiar with the market in Romania, for setting up the foundation of later the joint venture. In the late 1980 s, FDI has contributed significantly to the economy of central and eastern European countries, and the whole region attracted more than $200 million in investment. From 1986 to 1987, Poland has 700 joint venture enterprises, 87 in Hungary, but Romania only 10. (Simai 1988)Obviously, on the whole, the utilization level of foreign capital is very low.[4]

c) the period that from socialism to capitalism: attaches importance to and actively uses foreign capital

With the change of political and economic system in eastern-Europe in 1989, Romania opened the door to foreign capital. From the view of investors, the consumer market of Romania is hardly open, which provides opportunities for western companies seeking new markets. Otherwise, Romania is in need of a large number of skilled technical workers and low wages is attractive to investors. From Romanian perspective, in order to complete successful transformation into a market economy, they need advanced capital, technology and management experiences. Romania hope that FDI plays an vital role in its economic transformation, as an necessary part of "shock therapy".[5] After 1989, the number of foreign companies registered in Romania is very large. In terms of quantity, it even ranked among the top of the world, but the total FDI inflows is very low. In 1991, FDI inflows in Romania is $40 million, $971 million in 1995, after 2003, the amount has a significant increase, reach to $11.072 billion ,and reached its peak in 2008 to $13.91 billion, then fell in 2009 to $48.47 billion, $2010 in 35.37 billion; In terms of total, in 1995,just $821 million, but in 2000, $1.953 billion, and $67.911 billion, in 2008; $72.007 billion, in 2009 ;$70.012 billion in 2010.[6] In 2004, and of FDI inflows in Romania is in the third place among central and eastern European countries, following Russia, Poland, exceeding the Czech republic and Hungary. Yet value per capita ranks on the bottom.

The FDI inflows of Romania can be divided into three stages: 1990-1996, 1996-2002 and 2002 later.

First 1990-1996: Legislation of Romania is relatively stable making it attractive for foreign investors to invest. Thus attracted a large number of small micro enterprises, more than 45000.Yet the stock and inflow is still very low, and there are hardly large foreign enterprises to invest. Compared with the Czech republic and Hungary, large foreign companies comes much later.ROM. Ordinary citizens doubt the foreign investment, there is a big risk of the acquisition of state-owned enterprises. Plus the union is powerful, workers could cause backlash and frequent strikes, which draw investors back. Before 1997, foreign investors cannot access to land and real estate. In 1998, the privatization of state-owned Banks, telecommunications and other large enterprises began. In addition, low purchasing power of the locals is unattractive to big investors.

Second 1997-2002, after 1996, right-wing political party was in power, who are determined to accelerate the privatization process, making the FDI inflow excess $1 billion per year. A large number of state-owned enterprises are acquired by foreign investors, including Romania development bank (RDB) and Romtelecom. The prominent problem is changes of law frequently during this period. Romania withdrew the professional and international acclaim foreign regulator, Development Agency (Romanian Agency for Development). Until 2002, the new Romanian international investment bureau(Romanian Agency for Foreign Investment) are established. The absence of management in 7 years and lack of coordination among the various government departments cause confusion to a certain degree. In 1997, equal treatment of both foreign and internal hurriedly announced in Romania causes investment decline dramatically[7]. There is very low new investment this period, basically the original expansion of investment projects.

Third 2003 later, FDI in Romania has significant growth each year. In 2004-2005, average annual added amount of FDI are more than $6 billion. The main reason is that Romania makes decision to join the euro zone and NATO, which significantly improve the investment environment, greatly enhance the confidence of investors in Europe and America. The final expectation of Romania to join the EU and adaptation of the EU legal system greatly stimulated the foreign investment enterprises to mergers and acquisitions. Since 2003, Romania's inflation rate has declined significantly and economic healthily developed, which further attracted foreign investors who take the market as the guide. The effective use of foreign capital improved the domestic economic structure of Romania, beside business, agriculture, manufacturing, construction, particularly service trade has developed significantly. In 2003, the services sector accounted for 26.5% of total foreign investment, symbolizing that Romania economy are gradually integrating into the trend of economic globalization.

The main features of Romanian FDI in recent years

a) The scale of FDI enterprises has polarization trend, but the amount of medium-sized enterprises are growing in recent years

When it refers to number of FDI enterprises, Romania ranked first level in the world. However, most of the registered foreign-funded enterprises are not active. The mainly active enterprises are small and micro enterprises. The number of enterprises invested more than 1 million dollars is no more than 2%, but the total investment accounted for 91%. Except the small and micro enterprises, France's Renault SA, South Korea's Daewoo Motor Company, General Motors Corporation of the United States, Coca-Cola Company also has investments in Romania, but the number of enterprises is still very small in comparison with other Central and Eastern European countries. Such FDI polarization trend (means a few large companies and many small and micro enterprises) in Eastern European countries is much the same during transition period especially in Romania. In recent years, the importance of medium-sized enterprises gradually emerging, but its number still can not compare with small enterprises. As for industry distribution of FDI, 40% foreign companies are wholesale and retail enterprises. The reason of large investment in trade field is this sector has been neglected in the communist period. In the early years during economy transition, consumer goods including food and clothing are very scarce. Meanwhile, the investment amount of this sector is really small with low risk. The number of manufacturing companies are less, but absorbing nearly 50% of the FDI stock. The relationship between economic restructuring and FDI sector distribution is obvious if

from the view of FDI construction. In the late 1990s, the importance of the wholesale and retail industry decreased dramatically no matter the number of enterprises or the total investment. At the same time, the manufacturing and services sectors (after 2000) is significantly increased.

b) Uneven geographical distribution of FDI, investment mainly concentrated in the capital and the surrounding area

Geographical distribution of FDI in Romania is very uneven. More than half of foreign-funded enterprises concentrated in the capital-Bucharest and the surrounding area. This phenomenon is not unique, happened to other Central and Eastern European countries as well. A large number of foreign investments concentrate in the capital and a few regions proved Knickerbocker theory that many foreign investments are a response to certain oligarchic leadership companies to invest in the same area. Besides Bucharest, foreign investments prefer to Transylvania and Banat Ya Mulvey (northwestern, western and central regions), while the Carpathian region rarely able to attract foreign investment. Only a few of FDI invest in the agricultural areas of Southwest and Northeast. The study also shows that inter-regional distribution of FDI also has a significant difference: In general, in the same area, the higher the level of urbanization of county attracted more foreign investment than agricultural county did. The reason is very simple, the higher the level of urbanization of County, the larger relatively consumer market is. Despite the development of telecommunications and transportation make spatial distances become relatively less important, the location of the company still has significant influence in fact. Because the company can choose their location in the world, which makes the company become picky on location selection. Cultural and human factors also affect the geographic distribution of FDI. Apart from Bucharest, the density of foreign investment gradually decreases from the Romanian-Hungarian border to inside. The reason is that most of the foreign companies from Western Europe, the location for them is more important than for non-Western European companies. Since transportation infrastructure is lagging behind, foreign investment companies prefer to build on both sides of the road near Hungary. From the cultural point of view, Transylvania and Banat region is historically part of the Austro-Hungarian Empire, makes it closer to investors in Central and Eastern Europe than the "Old Kingdom", such a preferred investment areas can be observed easily in Hungary, the Czech Republic, Poland and Slovakia. In 1998, Romania designated several backward areas, due to the closure of coal mines and other factories losses caused high unemployment. Romanian government for foreign investment given very preferential policies (including several years of tax breaks), these incentives attract 1000 foreign-funded enterprises and creating 54,000 jobs. However, only few companies are owned by foreign investors or in the form of joint ventures. In fact, many domestic enterprises would go back to these places to establish enterprises in order to take advantage of preferential fiscal and taxation policies. These companies belong to "false foreign", and did not produce many

facilities construction. When Romanian government realized this plan is failed, it decided to cancel investment incentives policies in backward areas finally in 2004.

c) FDI comes mainly from Western European countries and America, few from Asian countries

According to the 2006 investment rank, FDI in Romania, top 10 followed by the Netherlands, Austria, France, Germany, Italy, UK, USA, Netherlands Antilles, Cyprus, Greece. Except for United States and the Netherlands Antilles, the others are all European countries. In 2006, Chinese investment in Romania is 210 million dollars, ranked No. 16. The others in top 30 countries of Asia, are only Japan, South Korea and Israel and Syria. Besides the reason of geographical distance and closer to consumer markets (market of Romanian foreign companies are mostly Europe), history and cultural factors are very important. In Romania, foreign investment and domestic ethnic neighborhoods have a direct correlation, for example, Hungary Invested in Hungarian ghettos, German investment in German ghettos, Greece Invested in Grecian ghettos. The county had the largest Turkey investment was Turkey ethnic inhabited areas as well.

d) Key factor attracted FDI in Romania are gradually losing such as skilled workers and low cost

Investigate several industries in Romania attracted the most foreign investment, such as automobile manufacturing, textile and apparel trade and commerce. Found that foreign investment is efficiency-seeking rather than market-seeking type (Because the domestic market of Romania is very small). A large number of well-trained skilled workers and the lower labor costs are the most important factors in attracting FDI. However, after Romania joined the EU, a large number of Romanian workers went to Western Europe to find higher paid job (Romanian official also difficult to know the precise figures of outflow labors). Currently, recruiting skilled workers are more difficult. These also caused pushing up the level of wages. Since joined EU, Romania is one of the highest wage increased countries. This means that the advantages of attracting foreign investment in Romania factor are gradually lost.

e) Foreign investment generally did not integrated into the local economy well in Romania

Foreign-funded enterprises in Romania, either wholly owned or joint venture, barely purchase raw materials from local market. Most of the products exported to Europe, South America and Africa. Show that the majority enterprises cannot integrate into local economy very well in Romania. Take the automobile industry as an example, foreign investors continue to rely on traditional foreign suppliers (large cross-company in Europe and America), because many Romanian companies cannot provide raw materials. Although Romanian companies can provide some automobile parts, but still are uncompetitive for the lower quality and higher price relatively. Although Renault's traditional suppliers which invest in the Romanian to manufacture "DACIA" brand auto parts, the products are all export. Romanian local companies are difficult to become multinational suppliers. Fortunately, in recent years, the western

region of Romania made efforts to integrate into the automobile business in Central and Eastern European industry, in order to integrate into the global automotive industry chain. There have been some export-oriented enterprises sighed documents with two Romanian car companies. Also, DACIA vendors have begun to produce products for Renault - Nissan's other assembly plants. But generally speaking, the extent of FDI integrated into Romanian local economy is very limited.

The opportunities for Chinese enterprises to invest in Romania

Since the 1990 s, the central and eastern European countries, including Romania, looked prospecting by the international capital markets. The FDI inflows continued to grow. Honestly to say, China and in Romania, their current economic are complementary, and because Romania, as EU member, are adjacent to the European market, bilateral traditional friendship with china, etc. Those factors are the advantages of Chinese companies to invest in Romania. At present, China's FDI stock Chinese enterprises investment about $800 million in central and eastern Europe countries. In Romania the number is about more than $300 million, ranked third, following Hungary and the Czech Republic. And there is more space to grow. Similar with the beginning of the reform and opening up in China, Romania is filled with a variety of investment opportunities. Overall, the sectors that are suitable for Chinese companies to invest mainly are: telecommunications, new energy, high-speed rail, agriculture, commerce, tourism, etc. As telecommunications, investment projects of China's huawei group are very successful. The employees of huawei Romania Company existing are more than 800, and they plan to establish the company as an "technical support base" in Europe and the Middle East. For the new energy, at the end of 2013, China MingYang wind power group and Romania enterprises, Chinese American investors signed a 400 million euro of wind power projects. The prime minister of China, Li keqiang, also specifically expressed support for agriculture and such as high-speed rail projects, which worth investors to focus on.

Adjacent to Croatia, Bulgaria, Ukraine, countries that have a world-class tourist destination, Romania tourism has broad prospects. In the field of textile and clothing and commercial, due to the small domestic market and gradually saturated, the investment should be cautious.

From the viewpoint of the investing environment, it is necessary to for the Chinese investors to know that the some problems in Romania still exist .First of all, the imperfect legal system that changes more frequently, makes foreign insecure .A large number of studies of FDI are proved that clear and stable legal system plays more important role in attracting foreign investment even more than the financial and tax incentives. After Romania joined the European Union, to complete the promise of membership and fully meet the requirements of the European Union, Romania must take the domestic legal system, therefore, the international investors keep optimistic and more become perfect to keep pace with the international investment legal system gradually.

Secondly, Romania, as to attract foreign capital, traditional advantages such as low skilled workers and the low cost of labor and land are gradually lost. Romania maintains negative growth of population for years. The population aging is so serious and the many young people outflow. Official estimates that legal expatriates are 1.2 million, but actually it estimated to be not less than 3.4 million. At current, there is serious shortage of domestic labors, and the gap is at least 500000.

Thirdly, at the respect of placing unemployed workers, foreign capital merger and acquisition or privatization, state-owned enterprises face many difficulties. During the period of socialist, in Romania, unemployment is zero, which means that all enterprises are low effective and lack discipline. Restructuring or enterprise privatization is difficult in Romania.

Fourthly, the domestic union organizations have more power and the provisions of the labor law benefits labor rather capital. The attitude Romanian citizens towards foreign investment are not friendly. In the 1990 s, foreign investors make adverse impacts on the local community, the destruction of the local cultural ecology and the natural environment, which easily to enrage them.

Last but not the least, like many former socialist countries, bureaucracy and corruption are also not allowed to ignore. In central and eastern Europe, that problem is more outstanding. For foreign capital enterprise, the degree of integrating into local society generally is not high. Keeping good relationship with local government, trade unions and the media is very important for the enterprise to succeed.

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