

EVOLUTION OF THE FOREIGN DIRECT INVESTMENT IN ROMANIAN ECONOMY

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The foreign investors in Romania are stimulated and attracted by free access to domestic markets, the possibility of taking part in privatizations, no imposed limits on foreign participation in commercial enterprises.

Romania is ready to accommodate a higher inflow of FDI in sectors such as agriculture, construction materials, automotive industry, constructions and real estate, oil and gas, petrochemical, energy, metallurgy, telecommunications, transport, food industry, retail, tourism, IT, financial sector, and distribution. Among these, the most appealing for foreign investors are automotive, financial services, software, constructions and real estate, electronics, telecom, pharmaceutical, and chemical industries.

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The foreign investors in Romania are stimulated and attracted by free access to domestic markets, the possibility of taking part in privatizations, no imposed limits on foreign participation in commercial enterprises. Also, foreign investors despite usually prefer Joint Ventures, are also free to establish foreign-owned enterprises in Romania, and more, to repatriate 100% of their profit after taxes.

A significant step forward taken for improving the relationship with the investors is the establishment of a governmental agency in charge with attracting and maintaining the contact with foreign investors in Romania. This is the Romanian Agency for Foreign Investment (ARIS), which has as main objectives to increase significantly the investment volume in Romania, to actively promote investment opportunities and to offer professional services for foreign investors, all along the investment cycle.

Besides the law regarding the direct investments with significant impact on the economy, the other most significant legal incentive offered to direct investment in Romania is the new single tax reform, introduced by the Government at the beginning of 2005. This modification brought Romania among the most competitive investment destinations in the region. The country was known for its high level of income taxation. Starting 2005, following a successful model already introduced by other countries in the region, corporate and individual incomes are levied with a single tax rate of 16%. This fiscal reform was coupled with a softening of the taxation principles on which all fiscal procedures will be based: transparency, simplicity, partnership with taxpayers, and prudence.

According to the experience of other countries, the accession to the EU will increase Romania's competitive advantage in attracting higher FDI, especially in export oriented, labor intensive and high value added industries.

In order to counter the lower taxes collected on corporate and individual income, the Government was forced to raise quotas for other taxes, such as: tax on dividends (from 5 to 16%), tax on capital gains (from 1 to 16%). The new fiscal strategy of the Government puts emphasis on indirect taxes, as compared to direct taxes (which are aligned at 16%, the same quota applicable for tax or income). Plus, Romania has revised its taxation system in order to bring it closer to the EU system and line it with the recommendations of the World Bank.

As an EU member, Romania will benefit from post-accession funds, which are significantly larger than the pre-accession funds. The total amount allocated for Romania for the period 2007-2013 for Structural and Cohesion Funds is EUR 19,668 billion. The Funds are meant to increase economic competitiveness, improve transport and environmental infrastructure, develop and strengthen regional development, improve human-resources development and strengthen administrative capacity.

In 2006, the investor's interest for Romania increased, ARIS announcing a new annual record of EUR 9.1 billion in FDI, an increase of 74.24% compared to 2005. ARIS considers that improvements in the business environment, the flat tax of 16% and a positive attitude from foreign partners helped improving FDI inflows dramatically. A direct impact on the FDI level had also the accession to the EU that changed the investors attitude towards the country that now has the status of a member state.

For the future, the estimations are also optimistic, at approximately EUR 10 billion, mainly due to the EU accession. The FDI increase will be determined by major players that were not until now present on the Romanian market, but decided to enter, immediately after the accession. Targeted segments will be the infrastructure, logistic, transport and energy, that still lags behind the West European countries and need significant investment.

Evolution of the FDI in Romania after EU accession

Once part of the EU, Romania has created a legal framework consistent with a market economy and investment promotion, and still continues to harmonize its legislation to the EU, by adding the so called "acquis communautaire".

Already in October 2004, Romania received the status of a functioning market economy, after years of transition and difficulties. Romania's attractivity as a business environment determined an increase of 9.2% in 2006 compared to 2005, in terms of number of commercial companies with foreign capital newly registered.

Romania has a leading role in attracting FDI in South-East European region. In 2005, out of the total EUR 10.4 billion in FDI attracted by countries in the region, Romania received half of these inflows. The positive trend continued in 2006, when FDI increased by an impressive 74.24% compared to 2005.

In Romania, the record level of investment inflows in the last years, compared to the other South-East European countries, was partly a result of the successful privatizations. Inflows were also important in green-field and expansion projects, particularly in the automotive industry and in services. The accelerated growth pace in the last three years has placed Romania among the leading FDI destinations in CEE region.

Though some substantial gains in recent years, direct investment flows have remained relatively low compared to the potential of a market with 21.2 million inhabitants, great natural resources, skilled labor and flexible (but still under changes) legislative environment. Still, Romania has lowered personal income and corporate tax rates and strengthened tax administration in order to attract the investors interest. Though, the legislative unpredictability continues and determine the investors lack of confidence.

In conformity with the data released by the National Prognosis Commission (NPC), the year 2006 was the seventh year of economic growth, the GDP registering a growth of 7.7%, compared to only 4.1% increase registered in 2005. For 2007, NPC estimated a GDP increase of 6.5%, reaching approximately RON 390.3 billion (EUR 118 billion). The increase is mainly determined by the strong activity volume especially in the services sector, industry and constructions.

Having in view that FDI in a country is facilitated, by the development of the infrastructure, the efficiency of administration, and by an adequate legislative system, the international financial institutions are actively supporting Romania in its efforts to meet these criteria, and surpass the difficulties of the transition.

BERD is the largest individual investor in Romania, country which is the third-largest recipient of BERD funding. As in 2007, BERD had signed projects in Romania, totaling over EUR 3.3 billion. This has helped to generate an additional EUR 6.2 billion from other sources. A total of 63% of investments are in the private sector.

Whenever possible, BERD is encouraging the private financing of infrastructure through concessions and build, operate, transfer schemes. The Bank is also actively supporting the development of the non-banking financial sector by promoting investment in leasing and insurance companies and in equity, mortgage and pension funds.

The World Bank is Romania's largest institutional creditor and its assistance covers all areas of the economy. The World Bank has financed operations in the country for a total original commitment of almost USD 5 billion.

In support of the country integration into the EU, the EU Commission actively assisted Romania technically and financially. It is estimated that the non-reimbursable funds that were made available for

Romania in the last couple of years were up to EUR 650 million annually. The funds were allocated for projects supporting convergence with the EU and focused on updating the legislation. The Government main tasks in the integration process were:

- to create the conditions for a functional market economy;
- to increase the financial discipline, to reduce inflation;
- to stop injecting money into the big state-owned companies, and privatize them, in order to reduce losses.

As part of the EU, Romania will benefit of structural, post-accession funds, as part of 7-year allocation plans, in amount of EUR 19.67 billion. The main recipients of these funds will be local and state administration, mainly for infrastructure projects.

The amount of FDI in a country is dependent also upon the privatization strategy adopted by the Government. Until the end of 2005, the Romanian Government has privatized most of the sectors of the economy. The largest privatization deals concluded are: BCR (sold to Erste Bank in 2005), Petrom (sold to OMV in 2004), Agricultural Bank (sold to Raiffeisen Bank in 2001), Sidex (sold to LNM Ispat in 2000), BRD (sold to Société Générale in 1998), and Dacia (sold to Renault in 1997).

The privatization of the largest Romanian bank, BCR, finalized at the end of 2005, is by far the largest ever realized in Romania. The amount obtained by the Romanian state, approximately EUR 3.75 billion for 61.88% of shares, is so large, that it is about equal to the value of all the other privatizations of the last 15 years. After the privatization process, BCR's customers will benefit from improved access to account information, better customers service and a larger and improved range of services & products.

Another successful major privatization was done also with an Austrian investor - Petrom, the national oil company. The deal was concluded in 2004, when OMV acquired 33% of the company, for about USD 900 million. Petrom is the largest company in Romania, with a turnover of about USD 3 billion.

Privatization of the main utilities was successfully concluded by the end of 2004. The privatization of the regional electricity distribution companies Electrica Banat and Electrica Dobrogea was done with the Italian company Enel in 2004. The two gas distribution companies, Distrigaz Sud and Distrigaz Nord, were sold in October 2004 to European strategic investors. Gas de France has acquired Distrigaz Sud, paying EUR 128 million for 30% of its shares, and subsequently increasing the share capital by another EUR 183 million, thus gaining the company control. Distrigaz Nord was privatized with the German company Ruhrgas which paid EUR 125 million for 30% stake and earmarked EUR 179 million for a share capital increase that will bring over the 51% control.

Distribution of FDI per countries of origin

Romania is actively integrated into the European economical environment, as reflected by the distribution of FDI per countries of origin.

Dutch investment in Romanian economy

The Dutch companies are mainly investing in production and logistic, IT, milk processing, banking. With over 20% of total foreign investment in Romania, The Netherlands occupies the first place in the top of foreign investors. More than 2,700 companies activating on the Romanian market have Dutch capital, high investment being made by Unilever, ING, ABN AMRO, Philips, KPMG, Heineken.

Austrian investment in Romanian economy

Since 1990, Austria has constantly been among Romania's most important trade partners. Currently, Austria ranks second within the classification of foreign investors in Romania, the subscribed equity capital amounting to more than EUR 2.1 billion.

Many Austrian companies are interested in investing in real estate, in buying land in the vicinity of motorways and transport knots, in machine construction, metallurgy, measurement and equipment production, food industry, construction materials, etc.

In the banking system, Raiffeisen Bank and Volksbank are already top players. However the BCR transaction changes the position of Austria between foreign investors. Erste Bank considered coming to

Romania after some very successful strategies already applied in the transition countries, BCR becoming the most important privatization deal ever concluded in Romania.

The leading Austrian investors in Romania are, apart from the new entrant Erste Bank: OMV, Raiffeisen, Schweighofer, Porsche Romania, Volksbank, Omniasig and Unita.

French investment in Romanian economy

Over 4,800 French capital companies are registered with the Romanian Trade Registry, France occupying currently the third position in top of foreign investors in Romania. The major French investors are Orange, Société Générale, Lafarge Romcim, Renault-Dacia, Carrefour and Alcatel.

German investment in Romanian economy

The majority of German investments are in small businesses. More than 90% of these investments amount to less than EUR 40,000, still the Germany's contribution to the strength of the Romanian economy is substantial. However, the above mentioned figures do not take into account the fact that a number of major German companies have effected their investment in Romania through their branches in various European countries.

Main investment sectors for the German companies are: automotive industry, metallurgy, wholesale trade, plastics industry, textile industry, retail trade, IT, financial services and main players are: Metro, Praktiker, Kaufland, Selgros, Billa, Plus, Steilmann, CarpatCement, Siemens, Dr. Oetker.

Italian investment in Romanian economy

Italy is presently one of the most important commercial partners of Romania ranking fifth in the top of foreign investors, with more than 22,000 Italian capital companies registered with the Romanian Trade Registry. Mainly Italian investment are focused on the so-called "labor intensive" projects, developing the Lohn system with raw materials brought from Italy. The traditional sectors in which Italians have been investing so far are textiles, construction, trade, services and agriculture.

The main Italian investors are Italstrade, Unicredito Italiano, Butangas, Pirelli Telecom, Cefin.

UK investment in Romanian economy

UK is placed on the seventh position in the top of foreign investors in Romania, with over 2,900 companies registered by March 2007 and a subscribed equity capital of more than EUR 600 million. One of the most favorite investment field for UK investors is the real estate market, together with the construction field, railway, clothing & textiles, energy sector, agriculture.

Major investors so far have been: GlaxoSmithKline, BPB Gypsum Ltd, Mivan-Kier, Aviva, Halewood, British Vita.

Greece investment in Romanian economy

Greece occupies the nine place in the top pf foreign investors in Romania with more than 3,700 companies having Greek capital and a subscribed equity capital amounting to more than EUR 550 million. Preferred fields for the Greek investors are: telecommunications, construction sector, IT, plastic industry, distribution, banking system.

Main investors are: Romtelecom, Cosmote, Alpha Bank, Egnatia, Piraeus, Alexandrion, Loulis, Chipita, Diekat, Marks&Spencer, Germanos.

Among the factors that are deemed to support higher FDI in the future, the following are the most important:

- Romania is a politically and socially stable country, part of the EU;
- Romania has gained full membership of NATO;
- Romania represents the second largest market in the CEE region;
- The crucial geographical positioning of the country, a gateway between East and West of Europe;

- The commitment of investment funds present in the country to develop their business and the association of the Government with international financial institutions, such as FMI, BERD, World Bank, and the EU Commission;
- The high qualification of labor force and its low costs, below the levels of other countries in the CEE region.

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