This survey analyses aspects of the relationship between FDI and sustainable development within the Romanian economy, focusing in particular on volume, dynamics and structure of FDI companies in Romania, impact on imports and exports as well as ratio between repatriated profit and profit reinvested in the host country. A series of proposals have been made for increasing the contribution of FDI in the sustainable development of Romania by attracting FDI in particular to the tradable sector and for increasing the favourable propagation effects to Romanian companies.

**Key words**: export, import, FDI, trade balance deficit, reinvested profit, repatriated profit.

**Jel Classification**: F15, F21, F23, F43.

We shall try to evaluate on a macro-economical scale the manner in which the foreign direct investments in Romania have succeeded to meet the requirements for sustainable development starting from the assumption that the foreign capital intake must represent, together with other internal and external agents, a factor which contributes to sustainability of economic growth.

**Volume, Structure and Dynamics of FDI.**

According to official statistics issued by the Romanian National Bank and the National Institute of Statistics, the final stock of FDI in Romania as of 31 December 2010, equaled 52.585 billion euro, registering an increase of 5.2% in comparison with the former year. This amount included equity investments (including reinvested profit of 35.5 billion euro (67.5% of final stock of FDI) and 17.0 billion euro (32.4% of final stock of FDI) total net credit received by transnational company subsidiaries, which represented an increase in weight of 26.5% in 2009 to 32.4% in 2010.

**Table no. 1 FDI Stock in Romania in the period 2003-2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (Mil. Euro)</th>
<th>Equity investments (Mil. Euro)</th>
<th>Credits (Mil. Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>9662</td>
<td>7092</td>
<td>2570</td>
</tr>
<tr>
<td>2004</td>
<td>15040</td>
<td>12007</td>
<td>3033</td>
</tr>
<tr>
<td>2005</td>
<td>21885</td>
<td>17490</td>
<td>4359</td>
</tr>
<tr>
<td>2006</td>
<td>34512</td>
<td>27016</td>
<td>4395</td>
</tr>
<tr>
<td>2007</td>
<td>42770</td>
<td>31501</td>
<td>4395</td>
</tr>
<tr>
<td>2008</td>
<td>48770</td>
<td>34892</td>
<td>4395</td>
</tr>
<tr>
<td>2009</td>
<td>49984</td>
<td>35600</td>
<td>4395</td>
</tr>
<tr>
<td>2010</td>
<td>52585</td>
<td>35529</td>
<td>4395</td>
</tr>
</tbody>
</table>

* Net credits from direct foreign investors
** Equity investments are consolidated with net losses.

**Source**: Foreign Direct Investments in Romania, Romanian National Bank, 2010

29 See Direct Foreign Investments in Romania
Unlike equity investments of companies with FDI which do not require reimbursement thereof to the parent company, the net credit is a debt which must be reimbursed by the subsidiaries, the parent company having total decision control on reimbursement terms. Having in view the particularities of the two components of FDI, we consider appropriate to have a distinct analysis thereof, with due consideration of the fact that the first component is direct contribution to the stock capital of the FDI company while the second is a loan with all associated rights and obligations.

As far as equity investments to stock capital of FDI companies are concerned, in case of privatisations of public assets with foreign investors, a special attention should be paid to the difference between subscribed and paid capital as intangible capital or in-kind contribution which has to be correctly evaluated based on appropriate and customary market methods.

As pointed out in Table 1, equity investments to stock capital of FDI companies (including reinvested profits) in Romania have increased in the period 2003-2010 by about 5 times while volume of credits has increased about 6.3 times, which highlights the interest of parent companies in granting credits to their subsidiaries both in order to obtain the higher interest rates practiced in Romania as compared to rates in the country of origin of the parent company, as much as to increase the profit rate of the Romanian subsidiary as compared to profit rate in other countries hosting subsidiaries of the parent company.

The volume of FDI in Romania has known a fast growth during the entire period of transition considering that FDI’s were practically non-existent at the beginning of the 90’s due to the autarchy and the monopoly of the state over the foreign trade and external economic relationships.

Several distinct sub-periods of FDI evolution in Romanian can be highlighted in the years from 1991 to 2011 in connection with the economical reforms in progress in the Romanian economy as well as with a series of external factors having a strong impact on the local economy such as association, pre-accession, accession and post-accession to the European Union and the international financial crisis.

During the sub-period of pre-association to EU (1991-2005), FDI have had a modest evolution with small variations from one year to another, the annual volume of FDI being situated between 817.9 mil. euro in 1991 and 183 mil. euro in 1995, which placed Romania as one of the Central and Eastern Europe countries with the lowest rates of FDI per capita.

**Diagram no. 1**

![Diagram](image-url)
In the period of Romania’s EU association, the annual volume of FDI fluctuated between 729.9 million euro in 1999 and 278 million euro in 1997, with slightly higher rates than the former period, marked however by the heavy economic decline of Romania in the period 1995 – 1999. In the pre-accession period 2000-2006, the annual rate of subscribed stock capital fluctuated between 833.8 million euro in 2002 and 2435 million euro in 2005, the annual volume of FDI exceeding in the last three years 2.38 billion euro, this period being particularly marked by start up of important privatisations in the manufacturing industries and in the banking system. The post-accession period of the years 2007-2011 has known annual growths of FDI of over 3.5 million euro, which basically consisted in a higher control of Romanian FDI companies, an entire range of economic sectors being fully privatised to foreign capital which had a controlling share thereof oscillating between 70 to 85% in certain cases. It is in the same period, namely in 2009, that the economic crisis broke in Romania and led to a drastic reduction of annual FDI. At the beginning of 2012, following decisions made by applicable authorities, the partial or majority privatisation of 35 public companies in the field of energy production, distribution of natural gases, national post, railway transport, etc has been foreseen although part of these companies made substantial profit. Proposals were also made for privatisation of a series of public assets in the mining industry, proposals yet incomplete however. The main reticence against these privatisations is related to the poor argumentation of the short, average and long term economic-financial efficiency thereof, the crisis situation which is hardly a period of high sale prices, the fact that too many state assets are sold in a single step which makes the privatisation offer exceed the demand, and thus reduce the price of transactions to the detriment of the seller, unfavourable long term impact on the environment, etc.

Table no.2 Weight of number of companies with foreign equity investments and value of subscribed stock capital in Romania reflected in sub-periods between 1991 to 2011

<table>
<thead>
<tr>
<th></th>
<th>Total period 1991-2011</th>
<th>out of which per sub-periods:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>100.00</td>
<td>21.70</td>
<td>15.86</td>
</tr>
<tr>
<td>Subscribed stock capital calculated based on euro</td>
<td>100.00</td>
<td>6.97</td>
<td>6.82</td>
</tr>
</tbody>
</table>

Source: Calculations made based on data concerning Companies with foreign equity investments. Statistic synopsis of data offered by the Central Trade Register on 31 March 2012 (provisional data).

Although the number of companies with FDI in Romania may have a secondary relevance, it can be however noted that greatest number of such companies was registered in the pre-accession sub-period, when the negotiations for assumption of the Acquis Communautaire have represented a factor of attractiveness and security for foreign investors, the Romanian legislation being adjusted to the Community legislation. Over 50% of the total stock of FDI in Romania was set up in the post-accession sub-period, from 2007 to 2011, when the largest state assets were privatised and the most important Greenfield investors came to Romania which had become a Member State of the European Union.
During the crisis of the period 2008-2011, data offered by the Trade Register reveal the following information on monthly and annual evolution of FDI in Romania:
- drastic drop of **subscribed stock capital into new companies** from 6.665 billion $ in 2008 to 4.817 billion $ in 2009 and to 40.854 million $ in 2010 and 41.132 million $ in 2011, revealing a severe reduction of foreign greenfield investments in Romania in the period 2010-2011;
- a significant reduction of number of new FDI companies has taken place in the period 2009-2011 as compared to 2008, fact which can be explained by the long-term effects of the crisis over the new FDI in Romania;
- a slight increase of the subscribed stock capital as well as of number of companies with FDI stock capital can be noted in 2011 as compared to 2010.

As far as country of origin is concerned, FDI in Romania (balance as of 31 December 2011) is grouped in following categories for the entire period 1990-2011:
- the group of EU-27 Member States, neighbouring Romania or in the close vicinity of the country (the Netherlands, Austria, Germany, France, Greece, Cyprus, Italy) which hold the greatest share – 69.0% of total FDI, having traditional economic relationships with Romania and being at the same time the main trade partners on whom Romanian exports and imports heavily rely on;
- the group of remaining EU Member States, with reduced share of FDI below 3.07% each, totalling together about 15.15% of the total volume of FDI;
- other countries outside EU - Panama 3.12%, Switzerland 2.95%, USA 2.33%, Turkey 1.29%, China 0.92%, Japan 0.44%, Lebanon 0.32%, etc.

EU-27 countries hold together about 84.15% of FDI stock in the period 1991-2011, a fact which is explained by Romania’s membership of the European Union as well as the powerful influence of Romania’s proximity to EU developed Member States in particular. One of the issues of strategic significance for our country in both theory and practice is the issue of optimum weight of FDI from EU Member States in total FDI in Romania taking in consideration the current existing opportunities in Romania for FDI coming from countries outside EU 27, under an increasingly higher globalisation and the need to eliminate a certain imbalance and asymmetry in economic and international relationships. Experience of other EU Member States shows that weight of FDI coming from EU-27 countries in each Member State is situated at a “limit level” and definitely not at a level of 100%. The more developed a country is, the lowest this limit level is.

The analysis of the territorial distribution of FDI per counties in Romania, in accordance with share of each county in total volume of FDI, highlights the following issues:
- **23 counties with low share** (up to 1%) of FDI in total FDI, ranging from 0.06% (Gorj County) up to 1.02% (Suceava County); aggregate share of these counties in total FDI at national level represents 9.32%; these counties include the most poorly developed areas of Romania;
- 15 counties with shares between 1.02% (Suceava County) and 3.79% (Timis County) and referring to counties with higher economic-social development rates;
- Bucharest Municipality (51.6%) and Ilfov County (6.95%) with the highest share of FDI.

Distribution of FDI per counties reveals **a high discrepancy in value** between Bucharest Municipality and Ilfov County on one hand and remaining counties on the other. This discrepancy is explained by the fact that FDI have primarily searched locations in area with a high profit rate potential. Placement of counties in terms of economic-territorial development has not represented a major point of interest for foreign investors in Romania. The Sectoral Operational Programmes 2007-2013 and the Sectoral Operational Programme in particular have

---

30 The strategic dimension has in view capitalisation of the similarities not only between the Romanian economy and the EU-27 countries but also with the international economy as a whole, based on the advantages of mutual competition, elimination of a concentration beyond the boundaries safeguarding equal opportunities and a relative independence for cooperation in an extended economic area, outside EU-27.
set as their primary objectives and goals the reduction of regional disparities, yet the insufficient absorption of structural funds proves a poor contribution to this effect; The idea that the FDI have reduced the regional disparities of the economic-social development has not been statistically supported, at least not until now, and it is rather apparent that they have increased them, confirming S.Kuznets’ theory on the development following a curve in shape of “J” in the first stages of economic growth.

As a result, given the relatively small volume of FDI in a number of 38 counties, it can be stated that the most important factor for the development of Romania is the local investment, FDI playing a more or less complementary role.

The economic crisis has further aggravated the regional disparities of FDI, part of foreign investors leaving many poor or averagely developed counties or putting a halt to their investment therein.

Distribution of FDI in Romania on main economic activities
Structure of FDI per economic sectors and industries has a special significance for future sustainable development of Romania and improvement of its performance of efficiency and competitiveness, innovation and technological progress.

For the purpose of this analysis and in order to reach the objectives of this research study, the national economic industries shall be classified in accordance with the following criteria:

a) **technological levels**, with industries having **high** (high tech), **medium** (low tech) and **non-tradable** technological levels of goods and services;

b) sectors with **tradable** and **non tradable** products and services;

c) **primary**, **secondary** and **tertiary** sectors.

The scientific-intensive (high-tech level) industries have represented in the period 2007-2010 a share of about 4.5 % of the total volume of FDI, the highest share, over 43% being held by the non-tradable sectors, **financial brokerage services, insurance, trade, services supplied to companies, consultancy**, etc, which are in most part primarily speculative and provide relatively high profit rates with low stock capital input and no direct contribution to export.

The share of 31-32% of FDI of the manufacturing industry has remained relatively constant and concerned branches such as metallurgy, petroleum processing, chemicals, rubber and plastics, other industries belonging to **low and medium technological level** categories, with relatively low involvement and contribution to added value;

The lowest share of total FDI belonged to agriculture which presents no special attractiveness to foreign investors for the time being although aggravation of effects of the elementary crisis shall increase the interest for this sector where about 1 million hectares of arable land has been purchased by foreign investors.

Evolution of FDI during the economic and financial crisis of the period 2007-2010 started in 2008, powerfully reveals the negative impact of the crisis on FDI in 2009, with particular stress in the following sectors: metallurgy, food, beverages and tobacco, wood products, furniture included, computing, radio, TV, communication tools, textiles, clothing, leather goods, financial brokerage and agriculture. The highest decline was registered in 2010 with disparities from one year to another from start up of crisis in the construction and real estate sectors.

We would therefore like to stress as a final conclusion that most part of the DFI in Romania are concentrated in low technological level sectors and industries (low-tech)

31 The low technological level includes the following NACE divisions and groups: 15, 16, 17, 18, 19, 20, 21, 22, 36 and 37.
tech32): crude oil processing, coal coking, nuclear fuel treatment, rubber and plastic products, non-metal mineral products, metallurgy, steel structures and products (except machinery and equipments), construction and repair of ships. In most part of these industries Romania registers indeed higher indices of revealed comparative advantages (Zaman Gh., Vasilie V., 2004-2008; Giurgiu A., 2008), which stresses an inter-industry specialisation of exports of Romanian products as against the intra-industry specialisation where the most relevant indices are the Grubel-Lloyd indices.

Exports of the two groups of industries, the low technological level and medium low technological level, prevail in Romanian exports in a percentage over 65% (Ciupagea et al., 2007; Iancu A., 2004), while products of high technologies (high-tech level) have a share of only about 4% of the total exports.

The group of medium high technologies (medium high-tech) industries refers to chemical products (excluding drugs), machinery and equipments, electrical machinery and devices, road vehicles, other transport means, construction and repair of aircraft. This group has a small share of Romanian exports, less than 30%, almost equal to the FDI structure.

As far as promotion of FDI is concerned government policies should concentrate in the future on the promotion of FDI as an instrument for increase of foreign trade profits, by supporting sustainable development exports in the high-tech and medium high-tech sectors (Mazilu A., 1999), so as to increase weight of exports with high added value. Current FDI structure in terms of economic activities is not as yet compatible with the aspiration for increased export competitiveness and sustainable development.

**Foreign Direct Investments in Mergers and Company Acquisition and Development and Greenfield**

Companies with FDI include the following categories: greenfield, mergers and company acquisition and development, each having specific characteristics and different impact on sustainable growth and competitiveness.

*Greenfield investments* are usually concentrated in developed countries in the high technological industries and enjoy the preferential protecting treatment granted to infant industries. These investments have registered a very low level, of only 46 million euro in Romania, the equivalent of merely 1.1% of the equity investments in the companies with foreign direct investments. Investments in the category mergers and acquisitions (M&A), with 93 million euro (2.3% of total equity investments) are in a similar position.

The highest share of the equity investment flow in 2010 came to company developments, with a total amount of 3,928 million euro, 96.6% of equity investments respectively, these figures highlighting among other things a relative slow down of the process of diversification of exports during crisis periods, as well as a tendency to invest mainly in cost savings and improvement of manufacturing technologies.

Foreign direct investments in Greenfield companies were primarily targeted on the processing industry (13.9% of FDI balance). Other industries were these investments hold a significant share include: trade (10.2%), financial brokerage and insurance (6.8%), constructions and real estate (5.5%). A prevailing higher percentage of investments in the service sector (22.5%) in comparison with the processing industry is again apparent. Judging from the experience of other countries as well as Romania’s, growth in absolute and relative terms of the service sector in parallel with reduction in absolute and relative terms of the processing industry does not validate a sustainable evolution of economy, being well known the fact that a significant part of services depends on the vulnerable and volatile sector of speculations and “pseudo-tertiary” process

32 The medium low technological level includes the following NACE divisions and groups: 23, 25, 26, 27, 28, 35; the high technological level includes NAVE groups: 24, 30, 32, 33 and 35; the medium high technological level includes NAVE groups: 24, 244, 29, 31, 34, 35 (except ship construction and repairs), 353.
having the highest crisis and pro-cyclic instability potential. Unfortunately, in the over two decades of transition to market economy we witnessed in Romania a strong reduction of absolute volume of production of greatest part of processing industries and in particular of high technological industries (pharmaceuticals, fine synthesis chemistry, electronics, etc).

Most of foreign direct investments in greenfield enterprises are concentrated as all FDI in the area BUCHAREST-ILFOV (30% of FDI balance), followed by the CENTRAL Region with 5.3% and WESTERN and SOUTH MUNTENIA Regions with 3.9%, and 3.2% respectively. The concentration of regional allocation of greenfield FDI in several development regions of Romania may contribute, on a short and average perspective, to increased inter- and intra-regional disparities within the country which may generate significant internal and external migration of labour force. The most important investments in Greenfield companies come from Germany (8.5% of FDI balance), followed by the Netherlands (8.4%), Austria (5.6%) and Italy (4.2%).

Privatisations of Romanian state companies with strategic foreign investors have highlighted a series of deficiencies in terms of FDI volatility, change of business area or bankruptcy of certain enterprises, which contributed to the dissolution and de-industrialization of the domestic economy and reduced performance and efficiency thereof. Foreign investors have not met the post-privatisation investment commitments, unacceptably took advantage of their dominant position, only based on the capital subscribed to companies without also ensuring the paid-up capital, have changed the profile of the production, have purchased industrial enterprises not for their economic and technological recovery and maintaining their activity profile as originally committed, but for demolition and export of scrap originating from write off of machineries and equipments or for capitalisation of lands purchased at very low prices on a rising real estate market.

Worldwide, unlike Romania, the largest amount of FDI in 2009 and 2010 was allocated to manufacturing industries, with a rising share from 37% to 48%, followed by services were, with a decreasing weight from 33% to 30%, the primary sector registering a decline of weight from 30% to 22%.

The financial sector, considered by most experts as the "epicentre" of the international economic crisis, has registered a decrease in absolute volume and share of FDI in developed countries, a trend expected to continue in the future. In Romania, however, the largest share of FDI is owned by the service sector, especially financial services and consulting, which generated "soap bubbles" infected by the external worldwide explosion.

**Impact of Exports and Imports of Foreign Direct Investment Companies on the Trade Balance of Romania**

The desiderate of an active trade balance, with associated advantages is unquestionable especially considering that countries with a powerful, competitive economies have such a trade balance. Romanian decision makers have unfortunately, both unsuccessfully and without judgement, embraced the theory according to which devaluation of the national currency would ipso facto encourage exports, neglecting that success of currency depreciation with subsequent stimulation of exports should meet the following requirements:

- devaluation must occur in homeopathic doses (very small) and on short term;
- existence of a needed and sufficient foreign demand for the export production of the subject country;
- possibility to increase the production capacities in the country to match the foreign demand for export;
- the import content of the exported production should not be relatively high, being known the fact that depreciation of the national currency has a negative impact on imports.

---

Countries which have attempted to use the depreciation method (West Germany, USA) have quickly abandoned this policy, realizing that this policy would lead to total bankruptcy on the long term. China which increased its exports much faster than its imports without resorting to a drastic depreciation of the national currency stands as a relevant example to this effect.

The sectoral structure of FDI has a special significance for the foreign trade of the host-country in the sense that a too high FDI share in sectors such as brokerage and financial services as well as non-tradable goods may lead to strong trade imbalance. FDI prevailed in Romania in the "non-tradable" sector, which has spurred strong domestic demand, which led to an unprecedented increase in imports, so that trade balance and current account deficit became chronic, which has consequently increased the vulnerability of Romania during the worldwide economic crisis and financial crisis.

Experts (Kinoshita Yuko 2011, p. 4) specify that a relative high volume of investments in the financial sector, non-tradable goods and services may stimulate the internal demand and imports, including the trade balance deficit, having a detrimental influence on the current account difference and external debt “and FDI in the tradable product sector boost imports on short-term only”. On the other hand, foreign investors in the “tradable” sector pay a higher importance to qualification and productivity of labour force as against mere lower cost of labour force, the latter having a secondary role as influence instrument.

FDI attractiveness for tradable goods and services sectors in the host country requires a good infrastructure, a large internal market, a high level of skilled labour and a stronger integration into internal and external business networks, proximity to developed countries, which means lower transportation costs and a number of other advantages, including a stimulating business environment, good corporate governance, less bureaucracy and corruption and a friendly business environment and permissive taxes.

Changing of direction of movement of FDI from the "non-tradable" to the "tradable" sector contributes on average and long term to a better insertion of the host country’s economy into international value chains, to settlement of infrastructure shortcomings, as well as to improved human capital expertise. Such guidance can be also implemented by control and monitoring of FDI.

Experience of other countries with emerging economies has shown that control of stock capital investments such as inflows of FDI does not alleviate foreign investors (Ostry I.D. et al., 2010)\textsuperscript{34} from the tradable sector. Conversely, lack of selectivity and relevant information on the specifics and the creditworthiness of strategic investors can lead to erroneous decisions, damaging to the host country’s economy.

The predominant targeting of FDI to the financial sector, the sector of insurance companies, consulting firms, etc. resulted, in times of crisis, in a major and long term economic decline, accompanied by the danger not only of higher credit lines but also withdrawal of foreign bank branches which could no longer be persuaded to continue their activity in Romania, where they had formerly made consistent profits for extensive periods of time.

We basically agree with the quasi unanimous opinion according to which FDI improves the export performance of the host country by increasing internal capital, facilitates the transfer of new technology and products, offers best practices, expertise and managerial capabilities to local labour force, promotes employment growth particularly in case of greenfield companies etc.

Positive worldwide experiences on the favourable impact of FDI on exports may be quoted for several countries, the most interesting case however remaining that of China, which promoted an export oriented growth, so that $1 FDI stock accounted for 70 cents’ worth increase of exports

These favourable contributions of FDI for the economy of the host country are noted:

- Current sustainable development of Romania largely depends on FDI companies, taking in consideration the fact that these companies control some 70% of the foreign trade and about 85% of the banking system. This impact can be approached:

  - in absolute terms, as difference between exports and imports, to determine the favourable/unfavourable contribution of subject companies to the total amount of the trade balance of the country:

  - in relative terms, as share of exports and imports performed by FDI companies in the total volume of the country’s exports and imports, at various levels of aggregation;

In 2007 FDI in Romania have had a share of 70.8% out of the total amount of aggregate volume of country’s exports and a share of 59.2% of total imports of the country which strongly highlights the powerful control FDI companies exercise on the Romanian foreign trade, but also the role they play in the development of the national economy. In 2008, FDI export and import losses increased as compared to 2007, after which they decreased in 2009 due to the negative impact of the crisis.

Given the size of the percentage contribution of exports and imports of FDI companies in the country's total exports and imports in 2007-2010, there are voices considering same a favourable situation in that that these firms have the highest share as compared to exporting companies with domestic capital. We believe however that in terms of trade balance, the contribution of FDI companies was unfavourable (negative), because their imports exceeded exports in value. In other words, FDI contribute to the current account trade imbalance and to payment balance of the country (N. Falk, 2009 E. Borensztein et al., 2005 Navaretti G. Barba, 2004).

Analysis of data in terms of volume and structure of exports and imports of FDI companies in Romania highlights the following issues for the period 2007-2009:

- the trade balance of the period analysed was negative which means that imports of the FDI companies exceed their exports and according to the forecast of the National Prognosis Commission this trade deficit will be perpetuated until 2016;

- the economic agents with foreign equity investments activating in the retail business represent the main trade deficit generating sector (-7,77 billion euro in 2007; -8,372 billion euro in 2008; -4,387 billion euro in 2009), followed by the sector of another activity with trade deficit of -1,5 billion euro in 2007 and -601 million euro in 2009.

- the industry has contributed with a positive stock to the Romanian trade balance in the years 2007 and 2009 and with a negative stock in 2008, which brings the conclusion that it is however the industry, in particular the manufacturing industry, which has the highest potential to overcome the crisis and reduce the negative stock of Romania’s trade balance, based on exports exceeding the imports.

---

Disaggregated analysis of exports and imports of FDI companies in 2010 (table no. 3) highlights the following:

**Table 3. Contribution of FDI companies to total Romanian exports and imports in 2010**

<table>
<thead>
<tr>
<th>Stock of Trade balance (+/-)</th>
<th>% of FDI companies of total economy *</th>
<th>% of FDI companies of total economy</th>
<th>Exports (FOB)</th>
<th>Imports (CIF)</th>
<th>FDI Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>72.4</td>
<td>62.5</td>
<td>25950</td>
<td>28181</td>
<td>19923</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td>22887</td>
<td>19923</td>
<td>63.8</td>
</tr>
<tr>
<td>Mining industry</td>
<td></td>
<td></td>
<td>582</td>
<td>696</td>
<td>1.6</td>
</tr>
<tr>
<td>Manufacturing industry, including:</td>
<td></td>
<td></td>
<td>21934</td>
<td>18849</td>
<td>61.2</td>
</tr>
<tr>
<td>- food, beverages and tobacco</td>
<td></td>
<td></td>
<td>314</td>
<td>978</td>
<td>0.9</td>
</tr>
<tr>
<td>- cement, glass, ceramics</td>
<td></td>
<td></td>
<td>139</td>
<td>265</td>
<td>0.4</td>
</tr>
<tr>
<td>- fabrication of wood products, furniture included</td>
<td></td>
<td></td>
<td>1223</td>
<td>396</td>
<td>3.4</td>
</tr>
<tr>
<td>- fabrication of computers, other electronic, optical and electrical products</td>
<td></td>
<td></td>
<td>3652</td>
<td>3426</td>
<td>10.2</td>
</tr>
<tr>
<td>- machineries and equipments</td>
<td></td>
<td></td>
<td>1020</td>
<td>546</td>
<td>2.9</td>
</tr>
<tr>
<td>- metallurgy</td>
<td></td>
<td></td>
<td>2725</td>
<td>1572</td>
<td>7.6</td>
</tr>
<tr>
<td>- transport products</td>
<td></td>
<td></td>
<td>6713</td>
<td>4820</td>
<td>18.7</td>
</tr>
<tr>
<td>- crude oil processing, chemical products, rubber and plastics</td>
<td></td>
<td></td>
<td>2947</td>
<td>4414</td>
<td>8.2</td>
</tr>
<tr>
<td>- textiles, clothing and leather products</td>
<td></td>
<td></td>
<td>2983</td>
<td>2095</td>
<td>8.3</td>
</tr>
<tr>
<td>- other branches of manufacturing industry</td>
<td></td>
<td></td>
<td>218</td>
<td>337</td>
<td>0.6</td>
</tr>
<tr>
<td>Electric energy, gases and water</td>
<td></td>
<td></td>
<td>371</td>
<td>378</td>
<td>1.0</td>
</tr>
<tr>
<td>Professional, scientific, technical and administrative activities and support services</td>
<td></td>
<td></td>
<td>47</td>
<td>218</td>
<td>0.1</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td></td>
<td></td>
<td>334</td>
<td>91</td>
<td>0.9</td>
</tr>
<tr>
<td>Trade</td>
<td></td>
<td></td>
<td>2495</td>
<td>7138</td>
<td>7.0</td>
</tr>
<tr>
<td>Constructions and real state</td>
<td></td>
<td></td>
<td>48</td>
<td>145</td>
<td>0.2</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td></td>
<td></td>
<td>3</td>
<td>13</td>
<td>0.0</td>
</tr>
<tr>
<td>Information technology and communications</td>
<td></td>
<td></td>
<td>39</td>
<td>467</td>
<td>0.8</td>
</tr>
<tr>
<td>Financial brokerage and insurance</td>
<td></td>
<td></td>
<td>66</td>
<td>71</td>
<td>0.2</td>
</tr>
<tr>
<td>Transports</td>
<td></td>
<td></td>
<td>28</td>
<td>100</td>
<td>0.1</td>
</tr>
</tbody>
</table>

*million euro*
<table>
<thead>
<tr>
<th>Other activities</th>
<th>Exports (FOB)</th>
<th>Imports (CIF)</th>
<th>Stock of Trade balance (+/-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FDI Companies</td>
<td>% of FDI companies of total economy *</td>
<td>FDI Companies</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0.0</td>
<td>15</td>
</tr>
</tbody>
</table>

* Does not include exports and imports associated with activities of NACE groups 84 – Public administration, 97/98 – Extraterritorial activities.

Note: Exports and imports have been aggregated based on the main activity of the companies, in accordance with NACE Rev.2. Export and import of FDI companies are those related to exhaustively analysed (having more than 20 employees). Data concerning export and import within the economy as a whole considered for determination of relative figures are those reported by the economic agents who exceeded the reporting thresholds for 2010 established for the interstate statement purposes.

Source: Processing of data offered by the Romanian National Bank.

- **the manufacturing industry** is the main branch with trade surplus (3 085 million euro), this being mainly accountable to its *transport* sub-sectors (1 893 million euro surplus), *metallurgy* (1 153 million euro surplus) and *machinery and equipments* (474 million euro surplus);

- **agriculture, forestry and fishing**, although having relatively low inflows of FDI (2% of total FDI stock as of December 31, 2010), represent the second branch of the economy where FDI enterprises have registered an aggregate trade surplus (of 243 million euro), figure well below the real potential of Romanian agriculture and forestry

- branches having registered a deficit in the trade balance include: mining, food, beverages, tobacco, cement, glass, ceramics, crude oil processing, chemicals, rubber and plastics; other manufacturing industries; professional, scientific, technical and administration activities and support services; trade; construction, hotels, financial brokerage, transport, other activities; industries with negative stock of trade balance include some companies which enjoy some favourable production conditions in Romania and which were net exporters before 1989 (food, cement, glass, petrochemicals, plastics, etc.).

- in all other branches, FDI enterprises registered trade deficits, raising serious problems on promotion of exports and substitution of competitive imports in the future.

**The main issue** raised by the exports of the enterprises with foreign capital established in Romania is not the level of competitiveness, but the extent in which this level has a direct and indirect positive propagation effect on the national economy on short, medium and long term perspective (spillovers or positive externalities). From this point of view, if profit is fully repatriated to the parent company abroad, then the impact on the investments in Romania is very low or nonexistent, leaving as favourable effect thereof only the wage income of employees working in such foreign companies, income which may well be below the wage rates practiced by Romanian companies and a number of other benefits related to improvement of expertise and skills, use of resources such as raw materials, fuel and electric power, a greater confidence in observance of environment standards.

Consolidation of the relationship between sustainable development and FDI should not neglect some aspects related to impoverishment or poverty exports (Bhagwati J., 1958, Blomstrom M., Kokko A., 1998), which, due to the low value added and high share of export of natural capital, may generate significant medium and long term environmental and economic damages.

Another major strategic challenge for the sustainable development of the national economy, involving FDI as growth factor concerns the increasingly chronic character and the

---

36 We have seen that FDI are not concentrated in high technological industries, having high added value and competitiveness.
increasing trend of Romania's trade deficit, as shown by recent versions of official medium term (2012 - 2015) and long term (up to 2020) forecasts.

Table 4. Deficit of Stock of Romanian Trade Balance, as foreseen for the Periods 2012-2015-2020

<table>
<thead>
<tr>
<th>Years</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2020*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit of stock of trade balance, billions euro</td>
<td>-10,58</td>
<td>-10,96</td>
<td>-13,51</td>
<td>-15,35</td>
<td>-17,1</td>
</tr>
</tbody>
</table>

* 2009 estimation of the National Prognosis Commission for long term forecasts

Forecasts of the National Prognosis Commission forecasts on the trend of increasing trade deficit of Romania until 2020, highlight that trend projections coincide with the projections of the Country Report of IMF\(^\text{37}\) of 2011, in which, for 2012, which provide for 2012 a deficit (export FOB-import FOB) of -8.4 billion euro and -8.4 billion. euro in 2013, -9.1 billion euro in 2014 and -9.3 billion euro in 2015.

It is our opinion that development and implementation of programmes and strategies intended to reduce this tendency toward increase of negative stock of trade balance for some groups of products and services is imperatively required at least on following grounds:

− FDI should increase its contribution to Romania's foreign currency earnings from exports which show current or future comparative and competitive advantages, and not from exports made at "any price", which, some of them at least, may have unfavourable effects on the economy;

− FDI import policies should be discouraged by local products and services to replace some of the competitive imports, including by increase of absorption of EU structural funds for 2007-2013, which is currently very low (in late September 2011, absorption was 3.7% per overall sectoral operational programmes - POS, of which 7.3% - POR, 2.49% - SOP Transport, 1.89% - SOP Environment; 2.96% - HRD, 4.60% - POSCCE, 4.13% - PODCA, 6.85% OPTA.

− general restriction of unnecessary imports, having a negative impact on the environment and sustainable development, in compliance with EU regulations;

− stimulation by specific policies of exports of goods and services from creative-cultural industries which hold a significant share of the GDP in some countries, employment and foreign trade.

It is also worth mentioning on the other hand that change of vision on exports as growth factor "under any circumstances" also results from the fact that according to the National Prognosis Commission, the percentage contribution of net exports (exports-imports) to growth of real used GDP was negative in 2009, by -28.6% (value-priced 2008), of -30.3% (value-priced 2009) and, in 2010, by -31.5% (value-priced 2009) and -27.7% (value-priced 2010). Even higher negative contributions of net exports are estimated for the years 2012-2015.

FDI Exports: Reinvested and Repatriated Profit

One of the major FDI companies-related strategic challenges for the host country refers to the profitability and revenues made by the foreign capital in terms of internal and external economic and social impact, and the benefits made by participants to this profit (stakeholders).

Although status of subsidiaries of multinational corporations or other foreign investors is similar to the corporate standing of domestic investors (enterprises), there are still a number of peculiarities in the level of profitability compared to domestic producers, on the one hand, as well

---


455
as the manner to obtain profit and use profit or revenues in the host-country, by re-investment or repatriation into the country of origin on the other hand, which differentiate them from local companies.

The latest UNCTAD data confirm that the repatriated profits of FDI companies are usually higher than reinvested profits in the host country’s economy, which shows a greater advantage for foreign investors than for the national economies where the subsidiaries of multinational corporations are located (MNC), (A. Burnstein, 2005; Durham KB, 2004 E. Borensztein, 1998).

Table 5. Share of worldwide aggregate value of reinvested and repatriated revenues of foreign capital companies in the period 2005-2010

<table>
<thead>
<tr>
<th>Years</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinvested revenues (% of total revenues)</td>
<td>24.7</td>
<td>30.8</td>
<td>40.3</td>
<td>23.4</td>
<td>24.4</td>
<td>40.0</td>
</tr>
<tr>
<td>Repatriated revenues (% of total revenues)</td>
<td>75.2</td>
<td>69.1</td>
<td>59.7</td>
<td>76.5</td>
<td>75.5</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Source: Own estimative calculations based on the data offered by World Investment Report 2011.

Details offered in Table 5 as well as other analyses of revenues of MNC subsidiaries highlight following important issues:

a) global earnings reinvested in the “host” countries are usually smaller by 1 to 3 times than those returned in the country of origin, which shows that MNCs are profitable, in general, and that they legitimately follow their own interests, their volatility in the host country being determined not as much by bankruptcy or insolvency, as by the emergence of new opportunities for profit in other host countries, where they can obtain better competitive advantages;

b) the decision on the amount of reinvested profit is made by the parent company for its subsidiaries, subject to their expansion objectives, the level of operational costs in case of start up companies or upgrades;

c) reinvested revenues (Lundan S., 2006) does not mean only additional costs to increase production capacity of MNC subsidiaries in the host country, but also the establishment of contingency reserve funds to be used under unforeseen circumstances or for favourable foreign exchanges, so that contribution thereof to gross fixed capital formation does not equal the entire reinvested profit;

d) in the crisis years 2008 and 2009 the share of repatriated earnings was relatively higher than weight of reinvested revenues due to the general decrease of the overall value of the total earnings of multinational corporations;

e) even if foreign investors accept loss situation in the first years of operation of MNC subsidiaries, low profitability or total reinvestment of earnings, recovery of losses, of investments and search of profit throughout the entire operational lifetime of the investment remain a sine qua non requirement.

We have attempted based on official data provided by the Romanian National Bank and the National Institute of Statistics to determine extent of profit reinvested and repatriated by FDI companies operating in Romania.

Given the importance of FDI for the Romanian economy, we understand the major concern of certain representatives of Romanian governmental institutions on issues related to losses registered by banks or other subsidiaries of parent companies. It is less
understandable however their lack of equal concern for the cumulated profit repatriated by foreign investors and for the critical condition of Romanian economic agents, SMEs in particular.

If the profit repatriated as dividends granted to foreign shareholders for the host country represents an issue aggravating problems related to financing of new investment programmes, the profit reinvested in the host country is a financing source of investors even if such investments represent assets belonging to the foreign capital company. The prevailing idea according to which FDI stand at all times as a beneficial instrument for the sustainable development of Romania should be in our opinion adequately and finely adjusted to each particular case and issues, based on real analyses facts and solid arguments. Romanian DFI companies have repatriated in the years 2003 – 2010 a total amount in distributed dividends equal to 11.730 billion euro, augmented by an additional amount of 2.382 billion euro in net interest income, i.e. a total repatriated profit of 14.112 billion euro for a stock capital of about 52 billion euro in 2010. The equivalent of such an index of „Return On Investment“ (ROI) of 27% highlights a high profitability of FDI in Romania for the period under analysis.

Table 6. Revenues of FDI in Romania, reinvested and repatriated profit in the period 2003 – 2010

<table>
<thead>
<tr>
<th>Years</th>
<th>Revenues made by FDI</th>
<th>Revenues (distributed dividends)</th>
<th>Repatriated profit (distributed dividends)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1047</td>
<td>29</td>
<td>446</td>
</tr>
<tr>
<td>2004</td>
<td>2083</td>
<td>66</td>
<td>568</td>
</tr>
<tr>
<td>2005</td>
<td>2352</td>
<td>87</td>
<td>1101</td>
</tr>
<tr>
<td>2006</td>
<td>3313</td>
<td>61</td>
<td>584</td>
</tr>
<tr>
<td>2007</td>
<td>4350</td>
<td>266</td>
<td>2757</td>
</tr>
<tr>
<td>2008</td>
<td>6412*</td>
<td>634</td>
<td>2696</td>
</tr>
<tr>
<td>2009</td>
<td>4496*</td>
<td>475</td>
<td>1608</td>
</tr>
<tr>
<td>2010</td>
<td>4222*</td>
<td>764</td>
<td>1970</td>
</tr>
</tbody>
</table>

* Total loss registered by FDI in the subject years was not considered.

Source: Romanian National Bank and National Institute of Statistics data based on the exhaustive research of 6473 enterprises with foreign direct investments, including enterprises with at least 20 employees (6242 entities), all foreign capital credit institutions (40 entities), all foreign capital insurance companies (34 entities), as well as atypical companies, all enterprises with foreign direct investments having a turnover of the stock capital over 30 million RON (157 entities). Representation at regional level of development and NACE division is provided by the foreign direct investment enterprises analysed exhaustively holding a 87.3% share of total FDI stock. The number of enterprises with foreign direct investments which has not been covered in this exhaustive statistical survey (about 36,900) is represented by the sample consisting of 1050 entities. The total number of entities investigated (exhaustively plus sample) was 7523. The degree of error of the results of the statistical survey on foreign direct investments in Romania (flows and stocks) is ± 3%, is guaranteed with a probability of 97%.

Dividends distributed by FDI companies in the crisis years 2008-2010 in Romania were lower than in 2007, and net interest income experienced a general growth trend, with larger and smaller fluctuations from one year to another.

World Bank data (http://businessday.ro/12/2010) show that during 2005-2009, TNC subsidiaries in Romania repatriated profits of about $ 19 billion (14 billion Euro), their value reaching $ 1.54 billion in 2009, lower by 65% compared to 2008, data which is close to our estimates (Table 12).
As far as reinvested earnings are concerned, we had more reliable data only for the period 2003-2007 when the aggregate amount thereof was 7.188 billion euro. In 2008-2010, due to losses registered and changes in methodology of calculation it was no longer possible to rigorously determine the size of reinvested profit. We estimate however that profits repatriated by FDI companies in Romania were about twice as large as profits reinvested in Romania, which is close to the average situation worldwide. The extent to which such a ratio is favourable or not for Romania would gain consistency and credibility if it were the subject of a complex survey, based on real cases of foreign investors.

Ratio between reinvested and repatriated profits of foreign companies in Romania differs from one sector to another and from one company to another, making it difficult to establish standard benchmarks for profitability and distribution of invested and repatriated profit. It is important though to apply the principle of cost-benefit analysis and integral economic efficiency for each involved party (Manoilescu M., 1986), in order to allow establishment of ratio between results/costs in the broad and not only financial sense, which would imply that a number of negative and / or positive discounted externalities are added to direct financial costs and benefits. In other words it is necessary to determine RIRF (Financial Internal Rate of Return) and RIRE (Economic Internal Rate of Return), using updating techniques and choosing a suitable discount rate (AE Boardman et al, 2004; guide analysis cost-benefit, 2004, M. Florio, S. Vignette, 2003).

The cost-benefit analysis allows to determine the size of the benefit accruing to a unit cost to each party and to avoid unacceptable efficiency gaps (A. Lehman, A. Mody, 2003) between partners beyond reasonable confidence limits. It is unquestionable that such an approach does not ignore the role and benefits of FDI for the host country, but is rather an invitation to avoid unilateralism, generalizations that can blur particular different or totally opposite situations, advocating for greater objectivity, scientific integrity and professionalism.

### Final Remarks

This survey concerning correlation between FDI and the requirements for a sustainable development of Romania has highlighted that in addition to their favourable effects, FDI may also have some adverse effects on the trade balance, current account and balance of payments of the host country.

Given that FDI companies have the largest share of the Romanian economy, we consider it is absolutely necessary to promote policies intended not only to attract them at any cost in the country but also to verify their creditworthiness, to monitor to what extent they represent stimulant for an increased efficiency and welfare of Romania, for the improvement of Romania’s position in international rankings of competitiveness. The fact that many foreign investors realized in Romania profit rates much higher than in their country of origin must be analyzed and compared with the intake, the beneficial propagation effect these investments have on the national economy, according to the requirement of the win-win criterion, in terms of equivalence and mutual, reasonable fairness.

This research represents only a first step in the comprehensive analysis of the role of FDI for the Romanian economy. A series of issues concerning transfer pricing and barter relations between subsidiary and parent company, relevant aspects, tax facilities and incentives, volatility, observance of commitments in the post-privatisation contracts, the comparison between vertical and horizontal FDI benefits, parallel loans from companies, etc. remain to be further investigated.

---

38 RIRF – Financial Internal Rate of Return
39 RIRE – Economic Internal Rate of Return
Bibliography
Burnstein, A.; Monge-Naranjo, A. (2005), *Aggregate Consequences of International Firms in Developing Countries*, mimeo.
Cooper, A. (2011), *Exports have a greater impact on GDP than share of 33%, „Ziarul financiar”, no. 3225, 10 August 2011, p. 3.
Data: Romanian National Bank, The National Institute of Statistics, the National Commission for Prognosis, the Ministry of Public Finances.
Banca Naţională a României, Institutul Naţional de Statistică, Comisia Naţională de Prognoză, Ministerul Finanţelor Publice.
Desai, M.A. et al. (2003), *Dividend policy inside the multinational*.


*** (2007), *Possibilities to reduce trade deficit*, PHARE RO 2003/005-551.0203 programme


