

## MULTINATIONAL CORPORATIONS AND FOREIGN DIRECT INVESTMENTS IN ROMANIA. EFFECTS ON THE ROMANIAN TRADE

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*This paper focuses on the study of transnational corporations and their business development through foreign direct investments made in other countries, mostly greenfield type countries. The objective of this paper is to determine the impact of these companies enlargement on the Romanian retail market, especially on the consumer goods market. Transnational companies have experienced a very dynamic economic growth, enjoying success at first in their country and then expanding to other countries. As independent players on the international market, multinational corporations are becoming more and more powerful every day. Most of these companies record annual sales of ten million dollars each.*

*The most important aspect of business globalization is the interdependence between national economies. In this process, Foreign Direct Investments have an important role, given the fact that the internal resources are not enough to ensure the development and support of businesses hence the need to obtain external resources. Generally, FDI have a strong training effect both in the national and global economy, providing the replacement and modernization of techniques and technologies, increasing production and supply of goods, improving their quality and competitiveness, creating new jobs and growing the quality of life. Thus, each national economy is building its economic development strategy in which investments have a predominant role.*

*Foreign Direct Investment is a major driver of globalization that characterizes the modern economy. Increasing of Foreign Direct Investment flows, accompanied by the increasing of the portfolio investments, highlights the major role played by transnational corporations, especially in developing economies and transition economies.*

*The most important areas in which FDI was made in Romania are: financial intermediation and insurance, trade, construction and real estate, information technology and communication. The entering of retail networks on the Romanian market generated mutations in the forms of trade, causing modern trade, which by 2010 reached a market share of 50% of total trade.*

*Key words: F01, F14, D40, M16, M20*

### **1. Introduction. Transnational Corporations**

Transnational corporations, known also as multinationals or multinational corporations, are defined by the Encyclopaedia Britannica as: “any corporation that is registered and operates in more than one country at a time”(Bonciu 2009: 86).

The main pillars of the globalization process, at world level, of the economic activity and especially of the commercial and financial-monetary relations are the multinational

companies which could decisively influence the international labour division, being the main operators of the international trade (Stiglitz 2005:85).

As independent players in the international arena, the multinationals are stronger and stronger. Large multinational corporations contribute to global interdependence. They are so strongly interrelated in so many states that they have a profound interest in the stable activity of the international system – in security matters such as commercial and monetary relations. The multinationals are prosperous in a stable international climate which allows the freedom of trade, the freedom of movement and the that of the capital flow (investments), all governed by market forces with minimal governmental involvement (Goldstein, Josua and Peverhouse 2008: 477). Thus, these companies are a powerful force in favour of liberalism in the world economy despite the fact that some of the different branches put pressure on certain mercantile policies which should protect their own interests (Ghiță 2008: 40).

## **2. Foreign Direct Investments**

The most important aspect of the business globalization process is the more and more accentuated interdependence between the national economies. Within this process, foreign investments play an important role, due mainly to the fact that the internal resources are not enough to ensure the development and support of the efficient activity of enterprises and then occurs the necessity to obtain some external resources (Stiglitz 2005: 35).

Generally, the investments have a powerful involvement effect both within the national economy and the world economy, ensuring in an appropriate volume and structure the replacement and modernization of techniques and technologies, the increase of the production and offer of goods, the improvement of their quality and competitiveness, the creation of new jobs and the rise in the living standard. Thus, each national economy builds its own strategy of economic development in which the investments play an important role (Stiglitz 2005: 35).

The notion of investment has two spheres. The enlarged sphere contains financial investments, any capital placement with the purpose to obtain profit: purchase of securities, sums of money placement at banks, fund allocation to initiate a business), while the narrow sphere refers to the acquisition of new assets and they represent capital investments. The second sphere is included in the first sphere and the capital investments represent the material support of economic growth and the enlargement of the social-cultural activities in any country in the world (Cobzaru and Trifa 2007: 44).

*The foreign direct investment* is the process through which the residents of a country buy the property right of assets in order to control the production, distribution and other activities of a firm from another country. These are called strategic investments are considered the most important for the economy of the host country, having a considerable reduced degree of volatility. This type of investment requires the presence on medium and long term of the investor on the market, his involvement in the management of the acquired firm, with all the advantages related to technology transfer, know-how or the connection to the foreign markets (Cobzaru and Trifa 2007: 45).

*Foreign direct investments* represent an important moving force of globalization characterising modern economy (UNCTAD). The increase of the FDI flow, followed by the increase of the portfolio investments, especially in the developing countries and

transition countries' economies. FDI have two forms: investments in new productive entities and mergers and acquisitions.

### 3. Foreign direct investments in Romania

Romania's position in the configuration of the global market compared to the level of other countries in the Central and Eastern Europe is relatively lean. The Romanian economy has experienced significant improvements in terms of quantity from the point of view of the integration in the foreign trade, but from a qualitative point of view, it has not reached its development potential, hence the reduced capacity to attract direct foreign investments, as it can be seen in Table 1, "The value of direct foreign investments at the E27 level, at the level of 2008".

**Figure 1. The value of Foreign Direct Investments at the E27 level, 2008**

No	EU 27 states	The flow of foreign direct investments attracted (millions of Euro)	The flow of foreign direct investments attracted (% of GDP)
<b>1.</b>	<b>EU 27</b>	<b>198 701</b>	<b>1.6</b>
2.	Belgium	70 231	20.4
3.	Bulgaria	6 549	19.2
4.	The Czech Republic	7 328	5
5.	Denmark	1 858	0.8
6.	Germany	14 526	0.6
7.	Estonia	1 317	8.2
8.	Ireland	-13 674	-7.5
9.	Greece	3 070	1.3
10.	Spain	47 749	4.4
11.	France	66 341	3.4
12.	Italy	11 626	0.7
13.	Cyprus	2 741	15.9
14.	Letonia	862	3.7
15.	Lithuania	1 245	3.9
16.	Luxembourg	81 332	207.7
17.	Hungary	3 149	3
18.	Malta	600	10.6
19.	Holland	-5 203	-0.9
20.	Austria	9 478	3.4
21.	Poland	9 952	2.7
22.	Portugal	2 411	1.4
<b>23.</b>	<b>Romania</b>	<b>9 509</b>	<b>6.9</b>
24.	Slovenia	1 313	3.5
25.	Slovakia	2 331	3.6
26.	Finland	-4 895	-2.6
27.	Sweden	28 132	8.6

28.	Great Britain	62 498	3.4
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Source: [http://epp.eurostat.ec.europa.eu/cache/ity\\_offpub/ks-cd-10-220/en/ks-cd-10-220-en.pdf](http://epp.eurostat.ec.europa.eu/cache/ity_offpub/ks-cd-10-220/en/ks-cd-10-220-en.pdf), accessed on 03.01.2011

Therefore, from the Table 1 analysis, that is “The value of direct foreign investments at the E27 level, at the level of 2008”, we can see the position of Romania, compared to that of the other states of the European Union:

- FDIs on the Romanian territory were in 2008 worth of 9509 million Euros, a value comparative with the FDIs made in countries like Austria, 9 478 millions of Euro, Poland 9 952 millions of Euro, being better values than: 3149 millions of Euro invested in Hungary, 2331 millions of Euro invested in Slovakia, but much lower than those recorded in developed countries like: Belgium, 70 231 millions of Euro, France 66 341 millions of Euro, Spain 47 749 millions of Euro.
- The same thing can be said about the FDI's weight in the Gross Domestic Product, in Romania the weight of FDIs in GDP is of 6.9%, a better contribution than in Hungary where the weight of FDI in GDP is 3 %, Poland 1.4%, but much lower than that of 19.2% from Bulgaria or 20.4% in Belgium.

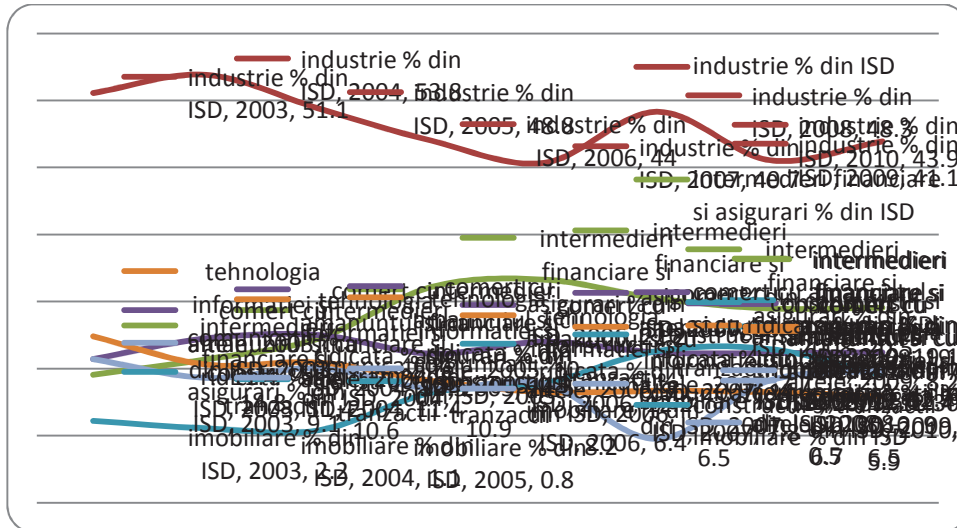
*These figures indicate that Romania presents an average degree of attraction for the foreign investors for the high country risk, mainly determined by the precarious political and economic situations, could be an important hindrance.*

In Romania, foreign direct investments have been made in the following sectors:

- Industry (mining industry, manufacturing industry: food, drinks, tobacco, cement, glass, crockery, wooden products, computer making, electronic, optical, electrical appliances, machinery and equipment, metallurgy, means of transport, oil, plastic objects, textiles, wearing, skin dressing etc., electricity, gas, water);
- Professional, technical, scientific, administrative activities and support services;
- Agriculture, forestry, fishing;
- Commerce;
- Constructions and real estate transactions;
- Hotels and restaurants;
- Information and communication technology;
- Financial intermediations and insurances;
- Transports;
- Other activities.

I will further analyse the weight of different sectors in FDI in Romania in order to determine the FDI evolution in Romania in the field of commerce.

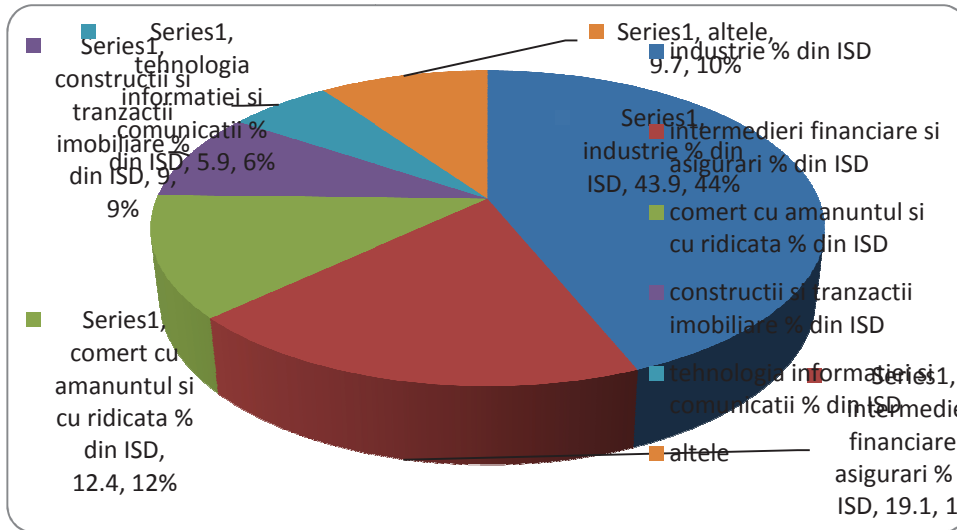
**Figure 2. The evolution of the weight of the main economic sectors in the FDI balance in Romania in 2010**



Source: Data processed by the author and taken from NBR Reports – Foreign Direct Investments in Romania 2003-2010

The analysis performed for 2003-2010 shows that the most important sectors in which investments have been made in Romania are: financial intermediations and insurances, commerce, constructions and real estate transactions, information and communication technology (figure 2).

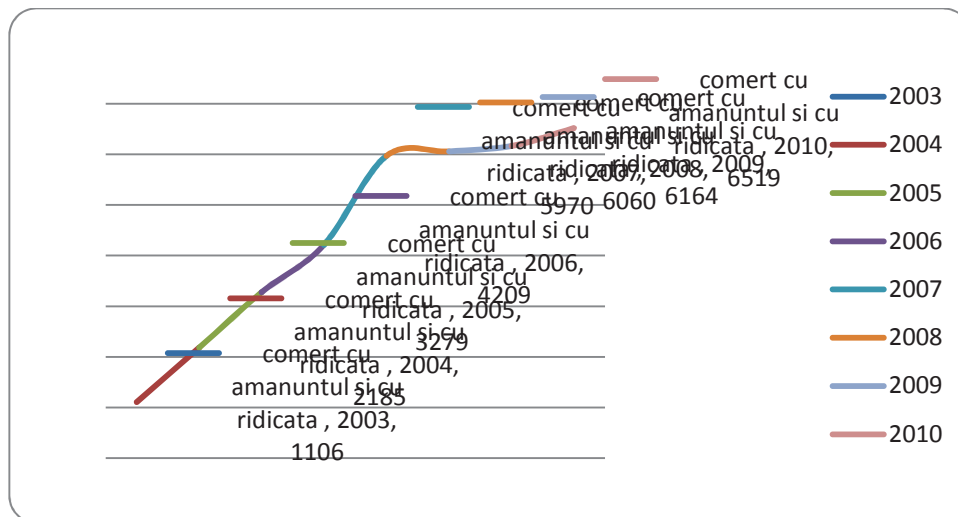
Figure 2. The weight of the main sectors in the FDI balance in Romania in 2010



Source: Data processed by the author based on the information taken from the NBR Report, Foreign Direct Investment in Romania on 31 December 2010

In 2010, trade was on the third position regarding the contribution of different sectors to FDI in Romania, after the industry sector and that of financial intermediations, fact which proves the importance of this sector of activity for the economic growth.

**Figure 3. The evolution of FDI in Romania in 2003-2010**



**Source: Data processed by the author based on the information taken from the NBR Report, Foreign Direct Investment in Romania 2003-2010**

In 2003-2010 FDI grew from the value of 9662 million Euros recorded in 2003 to the value of 52585 million Euros recorded for 2010.

In spite of Romania's integration in the European Union after 2007, the growth of FDI was slower, this period coinciding with the world economic crisis.

The growth of FDI in commerce mainly reflects the expansion of the international trade networks by opening new stores on the territory of other states. From the first consumer goods store, open in Romania in 1995, there are currently working on the domestic market 994 such stores. (information taken over from the site [www.magazinprogresiv.ro](http://www.magazinprogresiv.ro), article: Retaileri internaționali în CEE (International Retailers in EEC – n.t.), 06 December 2011).

#### **4. The Effects of Foreign Direct Investments Made by Transnational Corporations on the Consumer Goods Trade Market**

The development of the activity of transnational companies through FDI has determined the appearance of new forms of trade on the consumer goods market. Together with traditional trade, there appeared modern trade, represented by large surfaced stores, of thousands of square metres. The main components of modern trade are: the hypermarkets, supermarkets, discount type stores, cash&carry stores, specialized stores.

In 1995-2011, the weight of modern trade, related to the weight of traditional trade in the total of commercial activity increased, in 2010 reaching up to 50%.

For the next period, following also the evolution of the forms of trade in the developed states, the tendency shows the increase of the weight of modern trade in the commercial activity, to the prejudice of traditional trade.

In the future, the greenfield type investments will not be a priority, investments among the retail market being expected.

(Press release at the “Romania Retail Forum” Event mediafax, [http://www.money.ro/consiliul-concurentei--retailul-modern-a-depasit-ca-pondere-comertul-traditional-in-acest-an\\_787996.htm](http://www.money.ro/consiliul-concurentei--retailul-modern-a-depasit-ca-pondere-comertul-traditional-in-acest-an_787996.htm), 01.2011), following the trend of European market.

At the end of 2009, the first 5 players on the retail consumer goods trade market, had together a market share of only 27.4%, compared to other Central and Eastern Europe states, Hungary, 49.6%, the Czech Republic, 46.2%, Austria, 66.9%.

The low degree of concentration might be explained both by the market structure, the weight of the urban trade/rural trade and by the market’s stage of development. The Romanian retail market has recorded the highest growth rate in the Central and Eastern Europe region in the last 10 years. In spite of all these, the average sum spent by a Romanian citizen in retail is still below half of the European average (46%) (“Piața de retail FMCG din România: rezultate, direcții și soluții pentru viitor” , Research made by Contrast Management Consulting, Bucharest, June 2011, study available at: [http://www.magazinulprogresiv.ro/uploads/media/STIRI/Piata\\_de\\_Retail\\_FMCG\\_din\\_Romania.pdf](http://www.magazinulprogresiv.ro/uploads/media/STIRI/Piata_de_Retail_FMCG_din_Romania.pdf), accessed on 09.2011).

The main pillars to support the growth of the retail market in the following years are the growth of the buying power of the consumers and the development of modern trade. In order to ensure an as favourable as possible territory for sales, the commercial networks will count both on the increase in the number of stores and on the development of private brands.

The investments in trade maintained in the last years at quite high quotations, being situated among the fields which allocated the highest sums for development.

## **5. Conclusions**

As a result of the FDI analysis in the field of trade in Romania, we arrived at the following conclusions:

- The main pillars of the globalization process, at the global level, of the economic activity and especially of the commercial and financial-monetary relations, are the multinational corporations which could decisively influence the international labour division, being the main operators of international trade;
- The most important aspect of the business globalization process is the more and more accentuated interdependence of the national economies. In this process, foreign investments play a special role, due mainly to the fact that the internal resources are not enough to ensure the development and the support of the efficient activity of enterprises and hence the necessity to obtain some external resources;

- Romania has an average degree of attraction for foreign investors, for which the high country risk, determined mainly by the precarious economic and political situation, could be an important hindrance;
- From the analysis performed for 2003-2010, it results that the most important sectors in which there have been investments in Romania are: financial intermediations and insurances, trade, constructions and real estate transactions, information and communication technology;
- In 2010, the world trade is on the third position regarding the contribution of different sectors to FDI in Romania, after the sector of industry and that of financial intermediations, a fact which proves the importance of this sector of activity for the economic growth;
- For 2003-2010 FDI in trade grew from the value of 9662 millions of Euro recorded in 2003 to the value of 52585 millions of Euro recorded in 2010;
- The development of the activity of transnational companies by making FDI has determined the appearance of new forms of trade on the consumer goods trade market. Together with traditional trade there appeared modern trade, represented by large surfaced stores, of thousands of square metres;
- In 1995-2011, the weight of modern trade, compared to the weight of traditional trade in the total of the commercial activity grew, reaching in 2010 50%.
- Modern retail will reach in 2015 a market share of 54% of the overall consumerism of consumer goods.
- In the future, the greenfield type investments will not be a priority, acquisitions among the retail markets being expected.
- At the end of 2009, the first 5 players on the consumer goods retail trade market had together a market share of only 27.4%, compared to other Central and Eastern Europe states, Hungary, 49.6%, the Czech Republic, 46.2%, Austria, 66.9%.

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