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# Some challenging (macro)economic aspects of FDI in Romania[1]

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*Abstract: The research intends to analyse a series of FDI effects on Romania from the viewpoint of structure, volume and dynamics by types, sectors and branches, development regions and origin countries, as well as the impact on the expatriated and reinvested earnings, trade balance, and profitability of economic agents with FDI, transfer prices, and competitiveness of exports.*

*The outcome of the research highlights the overall negative trade balance of enterprises with FDI between the years 2007-2010, the relation between reinvested and expatriated profit, and the unfavourable impact of some energy traders on competitiveness. The importance of foreign investments in industry is highlighted, especially in the manufacturing industry and the unsatisfactory structure of FDI, which in Romania aims at the medium- and low-tech level branches.*

*Keywords: FDI; repatriated earnings; trade balance; state-owned transnational corporations, transfer prices*

*JEL Classification: $F_{21}$; $F_{23}$; $F_{41}$; $L_{32}$; $L_{60}$*

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In the present research, we try to highlight some of the challenging aspects related to the FDI-exports relation from the viewpoint of the sustainable development requirements for Romania's economy and of increasing its performance with respect to convergence and competitiveness.

In the first part of the study we analyse the dynamics and territorial sectoral structures and by groups of countries for FDI in Romania, starting from the requirement that they must represent an external complementary factor for increasing exports competitiveness and for Romania's economy efficient inclusion into international value chains, within the European Union and the world economy.

One premise of our research aims to analyse the FDI-exports relation from the perspective of achieving the principle of win-win strategic games with respect to the interests of the various stakeholders involved in the FDI activity among which we mention those of the foreign investors, of the national economy, the micro and macro levels within various time horizons (Daianu, D., 2001).

Last but not least, we start from the hypothesis that exports do not represent a purpose "*per se*" but a means for sustainable development of economic-social welfare, inclusion, equity and solidarity between the members of the society (Ciupagea, C. et al, 2004; Cherchez, O. 2007; Kutan, A. Vuksic, G., 2007).

The analysis of FDIs patterns and dynamics in Romania mainly refers to the period 2003-2010 because up to 2003 their volume increased rather slowly reaching an aggregated total of 7.682 billion Euros that is, on average, much under one billion Euros annually due to the difficulties of objective and subjective nature during Romania's initial transition period to market economy. It can be ascertained that, up to 2003, the largest part of foreign investors in Romania did not consist of strategic investors but from small- and medium-sized businesses, most of them within trade and services sector.

As of 2000, when negotiations for Romania's accession to the EU started - our country becoming thereafter also a NATO member - the credibility of Romania's business environment increased sensibly as strategic privatisation were initiated, which increased the attractiveness of the national economy for foreign investors.

## 1. FDI. Dynamics and structures by sector, territory and group of countries

The FDI impact on Romania's exports competitiveness remains one of the most complex issues for the analysis which requires correct measurement of the volume's influence, of their structure and dynamics, and of the profitability and distribution of reinvested and repatriated earnings for foreign companies, and of the price-related aspects, as well.

During 1990-2011, the FDI volume grew relatively quickly in Romania, on one hand, due to their almost inexistent level during early transition, and, on the other hand, due to the relatively higher profit opportunities that could be valorised in Romania by foreign investors, either through *greenfield* investments, buy-outs (mergers and acquisitions), or portfolio investments on the emerging capital market.

Table 1. Annual FDI flows in Romania
in the period 2003-2010

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Total FDI flows (Mill. euro) | 1946 | 5183 | 5213 | 9059 | 7250 | 9496 | 3488 | 2220 |
| Previous year=100 | 60.6 | 166.3 | 0.6 | 73.8 | -20.0 | 31.0 | -63.3 | -36.4 |
| FDI flows without significant privatisation (*) (Mill. euro) | 1805 | 3503 | 4413 | 6860 | 7250 | 8623 | 3488 | 2220 |
| Previous year=100 | 48.9 | 94.1 | 26 | 55.4 | 5.7 | 18.9 | -59.6 | -36.4 |

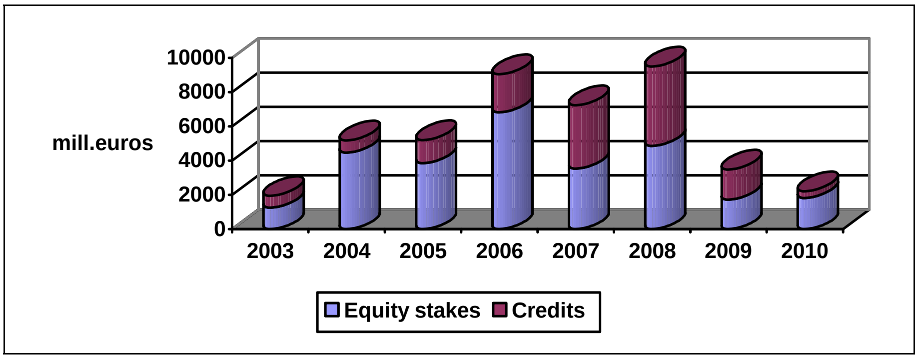
(*) over 10 mill. euros

Source: Foreign direct investments in Romania, NBR 2010.

The annual FDI flows under the form of equity stakes and credits for the period 2003-2010 in Romania (Graph 1) saw a development characterised by the following stages:

- 2003-2006, when the total FDI flow increased from 1.94 billion Euros to 9.05 billion Euros due to the large privatisation in Romania within the banking and industrial sector (oil, petro-chemistry, steel industry and machine building);
- 2007-2008, when privatisation continued within the banking sector and in the field of utilities and energy, the year 2008 being the FDI peak year with a volume of 9.49 billion Euros;
- 2009-2010, when the total yearly FDI volume decreased dramatically against the previous years, reaching only 2.22 billion Euros in 2010, as a result of the economic and financial crisis impact.

*Graph 1. Annual FDI flows from Romania under the form of equity shakes and credits in the period 2003-2010*




Source: Foreign direct investments in Romania, NBR 2010.

For the whole period 2003-2010, it is found that as of the economic and financial crisis year 2008, the aggregated FDI balance has small increases up to 2010 as compared with previous years.

Table 2. FDI stock in Romania for the period 2003-2010

| | 31 Dec. 2003 | 31 Dec. 2004 | | 31 Dec. 2005 | | 31 Dec. 2006 | | 31 Dec. 2007 | | 31 Dec. 2008 | | 31 Dec. 2009 | | 31 Dec. 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mill.€ | Mill.€ | % | Mill.€ | % | Mill.€ | % | Mill.€ | % | Mill.€ | % | Mill.€ | % | Mill.€ | % |
| Total | 9662 | 15040 | 55.7 | 21885 | 45.5 | 34512 | 57.7 | 42770 | 23.9 | 48798 | 14.1 | 49984 | 2.4 | 52585 | 5.2 |
| Equity stakes (incl. reinvested earnings)* | 7092 | 12007 | 69.3 | 17490 | 45.7 | 27016 | 54.5 | 31501 | 16.6 | 34892 | 10.8 | 35600 | 2.0 | 35529 | -0.2 |
| Credits** | 2570 | 3033 | 18 | 4395 | 44.9 | 7496 | 70.6 | 11269 | 50.3 | 13906 | 23.4 | 14384 | 3.4 | 17056 | 18.6 |

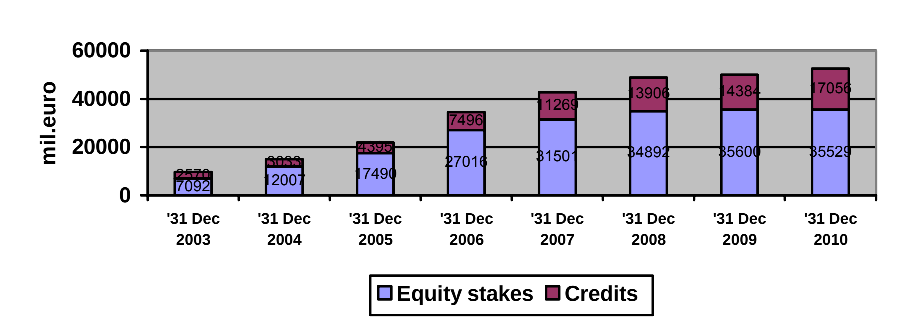
*** Equity stakes are consolidated with net losses.*

** Net credits from foreign direct investments.*

Source: Foreign direct investments in Romania, NBR 2010.

The equity stakes in the years 2009 and 2010 remained, practically, at the same level (Graph 2). The volume of credits increased, which leads indirectly to the conclusion that, in this period, foreign companies substantially diminished, or even ceased investments from net incomes achieved, which were strongly affected by losses.

*Graph 2. Aggregated FDI stock flows in Romania under the form of equity stakes and credits in the period 2003-2010*




Source: Foreign direct investments in Romania, NBR 2010.

On December 31 2010, the level of the final FDI stock[1] was of 52.585 billion Euros, higher by 5.2% than the final FDI stock of 2009, representing a share under 50% in relation to the size of Romania's GDP of the same year.

Equity capital (including reinvested earnings) of FDI enterprises was of 35.5 billion Euros in 2010, that is 67.5% of the final FDI stock. The total net credit[2] which was received by TNC subsidiaries from direct foreign investors, as well as from within the group, amounting to 17.056 billion Euros represented a share of 32.4% of the final FDI stock, recording a growth trend of the share, i.e. of 26.5% in 2009.

While the increases in equity capital of FDI enterprises does not imply their reimbursement, net credits on short-, medium- and long-term represent a debt for the respective enterprises, and principal and interest, as well as banking charges must be reimbursed, and for them the rates can vary in time, as in this respect the crediting parent company has the decisive power (Desai, M, Fortanier, F., 2007; Gorter, J., Parikh, A., 2003).

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*[1] The final FDI stock resulted from adding to the initial stock the net FDI flow and also the positive/negative value differences resulting from reevaluations due to changes in the exchange rates, and in the prices of some assets, and from accounting retri of the values for some initial stocks.*

*[2] Net credit comprises the credits on medium- and long-term as well as those on short term granted by foreign investors to enterprises from Romania, directly and by means of other non-resident companies members of group.*

In 2010, the net FDI flow amounted to 2.22 billion Euros, of which: 1.82 bill. Euros (that is 82.2% of the net FDI flow) net contributions of foreign direct investors to FDI enterprises' capital[1].

The net credit of 396 mill. Euros received by FDI enterprises from foreign direct investors in 2010, including from within the group represented a share of 17.8% of the net FDI flow.

During the period 2003-2010, FDI stakes to capital, including reinvested earnings increased 5.0 times in Romania, while the credit stock grew 6.3 times, which implies the higher crediting of subsidiaries, especially in the years of the crisis.

## 1.1. Distribution of FDI by main economic activities in Romania

We have attempted to catch the FDI evolution by main economic activities in Romania for the period 2007-2010, as a first stage of the national economy post-accession to the EU, marked by the current economic and financial crisis triggered in 2008, which meant a severe yearly decrease of about 50 % of the FDI stock in the years 2009-2010 against previous years. The economic crisis affected severely the FDI flows to Romania even though initial post-accession and integration expectations were of a "protective shield" and an economic growth factor. In reality, the crisis hit strongly not only the Romanian economy, but also some EU member countries (UNCTAD, 2009a), which caused the contagion phenomenon in Romania for which the GDP growth up to 2008 reversed to a decrease in 2009 and 2010, -7.1% and, -1.3% respectively.

For the analysed period (Table 3), the FDI structure by economic activities in Romania reveals the following important aspects:

- the highest share of FDI is held by financial intermediation services, trade, services delivered to enterprises (over 43%), which implies a higher attractiveness of these sectors for foreign investors, particularly by the higher profit rates, based to a good extent on speculative activities on the financial market;

[1] *Net participation results from diminishing participations of 4067 mill. Euros with a net loss of 2243 mill. Euros. The net loss was computed by subtracting from the 2010 net earnings of the FDI enterprises of 4222 mill. Euros the dividends of 1970 mill. Euros distributed in 2010, after which this value was diminished by the looses of 4495 mill. Euros recorded by FDI enterprises in 2010. This computation manner is in accordance with the international methodology of determining the earnings stock reinvested by the FDI enterprises, i.e. the net loss of the enterprises in the respective year.*

Table 3. Foreign direct investments in Romania in the period 2007-2010 (end of the year) by main economic activities

| | 2007 | | 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|---|---|
| | Total | | Total | | Total | | Total | |
| | Amount (Mil. Euros) | % of FDI | Amount (Mil. Euros) | % of FDI | Amount (Mil. Euros) | % of FDI | Amount (Mil. Euros) | % of FDI |
| TOTAL, of which: | 42770 | 100.0 | 48798 | 100.0 | 49984 | 100.0 | 52585 | 100.0 |
| Industry | 17409 | 40.7 | 20138 | 41.3 | 20680 | 41.4 | 23093 | 43.9 |
| Extractive industry | 2046 | 4.8 | 2158 | 4.4 | 2221 | 4.5 | 2388 | 4.5 |
| Manufacturing industry, of which: | 14071 | 32.9 | 15236 | 31.3 | 15555 | 31.1 | 16840 | 32.0 |
| - steel industry | 3219 | 7.5 | 3391 | 69 | 2577 | 5.2 | 2777 | 5.3 |
| - food, beverages and tobacco | 2207 | 5.2 | 2210 | 4.6 | 2058 | 4.1 | 2081 | 3.9 |
| - oil processing, chemical products, rubber and plastic | 1870 | 4.4 | 2115 | 4.3 | 3132 | 6.3 | 3615 | 6.9 |
| - transport means | 1546 | 3.6 | 1932 | 4.0 | 2373 | 4.7 | 2589 | 4.9 |
| - cement, glassware, ceramics | 1511 | 3.5 | 1762 | 3.6 | 1629 | 3.3 | 1663 | 3.2 |
| - wood products, including furniture | 1023 | 2.4 | 891 | 1.8 | 962 | 1.9 | 1013 | 1.9 |
| - computation technique, electric apparatus, radio-TV, communications | 818 | 1.9 | 689 | 1.4 | 690 | 1.4 | 840 | 1.6 |
| - textiles, clothing and leather | 737 | 1.7 | 794 | 1.6 | 717 | 1.4 | 835 | 1.6 |
| - machinery and equipment | 537 | 1.3 | 967 | 2.0 | 943 | 1.9 | 950 | 1.8 |
| - other branches of the manufacturing industry | 603 | 1.4 | 485 | 1.1 | 474 | 0.9 | 477 | 0.9 |
| Electric power, thermal power, gas and water | 1292 | 3.0 | 2744 | 5.6 | 2904 | 5.8 | 3865 | 7.4 |
| Financial intermediation and insurance | 9961 | 23.3 | 10026 | 20.5 | 9510 | 19.0 | 10055 | 19.1 |
| Wholesale and retail trade | 5970 | 14.0 | 6060 | 12.4 | 6164 | 12.3 | 6519 | 12.4 |
| Constructions and real estate transactions | 3329 | 7.8 | 6155 | 12.6 | 6453 | 12.9 | 4746 | 9.0 |

| | 2007 | | 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|---|---|
| | Total | | Total | | Total | | Total | |
| | Amount (Mil. Euros) | % of FDI | Amount (Mil. Euros) | % of FDI | Amount (Mil. Euros) | % of FDI | Amount (Mil. Euros) | % of FDI |
| Post, telecommunications and information technology | 2784 | 6.5 | 3283 | 6.7 | 3235 | 6.5 | 3081 | 5.9 |
| Services delivered to enterprises*) | 1940 | 4.5 | 1617 | 3.3 | 2299 | 4.6 | 2560 | 4.9 |
| Transports | 529 | 1.2 | 500 | 1.0 | 684 | 1.4 | 788 | 1.5 |
| Hotels and restaurants | 270 | 0.6 | 181 | 0.4 | 213 | 0.4 | 417 | 0.8 |
| Agriculture, forestry and fishing | 602 | 1.4 | 707 | 1.4 | 552 | 1.1 | 1068 | 2.0 |
| Other activities | 578 | 1.4 | 131 | 0.4 | 194 | 0.5 | 258 | 0.5 |

*) Car and equipment rentals and other services delivered mainly to enterprises.

Source: NBR and NIS data.

- investments in manufacturing industry during this period maintained their quasi-constant share of 31-32%, and the highest invested amounts were in steel industry, oil processing, chemical products, rubber and plastic, activities that are not characterised by strong incorporation of scientific research and , implicitly, by a high value added (Pelinescu, E., Radulescu, M., 2009);
- high-tech branches had small shares in total FDI stock within industry (about 4.5%), the outcome of research and innovation being taken over/transferred by the parent companies to the subsidiaries of multinational corporations with headquarters in Romania;
- agriculture, so far, with a share of 1.4-2.0 % from total FDI do not represent an economic sector of particular interest for foreign investors although, lately, about one million hectares of arable land were acquired by foreign investors.

In Table 4, we try to find some trends in the FDI evolution for the analysed period, highlighting in particular the FDI behaviour during the economic and financial crisis triggered in 2008. It is found that, from the FDI viewpoint, most strongly affected by the crisis in 2009 were the following industries steel, food, beverages and tobacco, wood products, including furniture, computation technique, radio devices, TV, communications, textiles, clothing, leather, financial intermediation and agriculture. In constructions and real estate transactions, the sharpest decline was recorded in 2010.

Table 4. FDI evolution in the period 2007-2010 by main economic activities

*2007=100*

| Economic activities | Years | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Total, of which: | 114 | 117 | 123 |
| Industry | 115 | 119 | 133 |
| Extracting industry | 105 | 108 | 117 |
| Manufacturing industry, of which: | 108 | 111 | 120 |
| - steel industry | 105 | 80.1 | 86 |
| - food, beverages and tobacco | 100 | 93.2 | 94.2 |
| - oil processing, chemical products, rubber and plastic | 113 | 167 | 193 |
| - transport means | 124 | 153 | 167 |
| - cement, glassware, ceramics | 117 | 108 | 110 |
| - wood products manufacturing, including furniture | 87 | 94 | 99 |
| - computation technique, electric apparatus, radio, TV, communications | 84 | 84 | 103 |
| - textiles, clothing and leather | 108 | 97 | 113 |
| -machinery and equipment | 180 | 175 | 177 |
| - other branches of manufacturing industry | 80 | 79 | 79 |
| Electric and thermal power, water and gas | 212 | 224 | 299 |
| Financial intermediation and insurance | 100 | 95 | 100 |
| Wholesale and retail trade | 102 | 103 | 109 |
| Constructions and real estate transactions | 184 | 194 | 142 |
| Post and telecommunications | 118 | 116 | 111 |
| Services delivered to enterprises* | 83 | 118 | 132 |
| Transports | 95 | 129 | 149 |
| Hotels and restaurants | 67 | 78 | 154 |
| Agriculture, forestry and fishing | 117 | 91 | 177 |

** Including machinery and equipment and other services delivered mainly to enterprises.*

*Source: NBR and NIS data.*

Accordingly, this FDI decrease had repercussions on the exports dynamics for the respective activities and their competitive capacities.

In conclusion, with respect to the impact of the structure by branches and sectors of FDI in Romania on exports we underline that most of them are oriented towards low tech[1] activities and sectors, that is food industry, light industry, wood and wood products, pulp and paper, editing and printing, furniture, waste and recyclable waste recovery, and towards the medium low-tech, that is oil processing, coal cooking, nuclear fuel treatment, rubber and plastic, non-metallic ore products, steel industry, metallic constructions and metallic products (excluding machinery, tools and installations), constructions and ship repairs. For a good part of these branches Romania's exports are characterised by revealed comparative advantages (Giurgiu, A., 2008, Zaman Gh., Vasile V., 2003, 2004, 2005).

According to the opinion of the experts the exports of the two groups of the low-tech and medium low-tech industrial branches predominate in the Romanian exports in a share of over 65% (Iancu, A., 2004), while the products of the high-tech branches have a share in total export of about 4%, the same share being held also by foreign direct investments in high-tech branches, which, mainly, refer to drugs, pharmaceutical products, computation and office technique, radio, television, optical and watch equipment, constructions and aircraft and ship repairs.

The medium-high tech group of activities refers to chemical products (save for drugs), machinery and equipment, electric machines and apparatus, road transport means, other means of transport, construction and aircraft repairs. In exports, this group has a share smaller than 30%, almost equal to the one within the FDI structure:

From the viewpoint of FDI promoting in the future, state policies should focus on FDI within high-tech and medium-high (Rujan, O., 2004; Mazilu, A.,1999) tech fields so as to increase the share of exports by high value added, the current structure by activities of FDI being in disagreement with this crucial desiderata of increasing exports competitiveness.

Tangible and intangible assets have recorded a balance by the end of 2010 of 24.309 million Eurasia, which represent 46.2% of the total FDI balance, confirming a higher stability degree of the foreign investment, which, as already known, has more or less a volatile character.

Economic activities for which FDI are found in tangible and intangible assets to a significant level are: industry (26.1% from total FDI), and within it, manufacturing

*[1] Low-tech level comprises the following divisions and NACE groups: 15, 16, 17, 18, 19, 20, 21, 22, 36 and 37; Medium low-tech comprises the following divisions and NACE groups: 23, 25, 26, 27, 28, 35. Medium high-tech level comprises the NACE groups: 24, 244, 29, 31, 34, 35 (except for constructions and ship repair), 353.I.*

industry (18.2 % of total FDI), retail and wholesale trade (6.5%); constructions and real estate transactions (4.5%%), information and communication technology (2.9%).

Table 5. Foreign direct investment in Romania, on 31st December 2010. Distribution of the tangible and intangible assets by main economic activities

| | 2010 Tangible and intangible assets | |
|---|---|---|
| | Value (million Euros) | Share in total FDI (%) |
| TOTAL | 24309 | 46.2 |
| Industry | 13740 | 26.1 |
| Extractive industry | 2066 | 3.9 |
| Processing industry, of which: | 9576 | 18.2 |
| – transport means | 1701 | 3.2 |
| – steel industry | 1635 | 3.1 |
| – oil processing, chemical products, rubber and plastic | 1524 | 9.2 |
| – food, beverages and tobacco | 1463 | 2.8 |
| – cement, glass, ceramics | 961 | 1.8 |
| – manufacture wood products including furniture | 679 | 1.3 |
| – machinery and equipment | 493 | 0.9 |
| – textile, clothing and leather | 458 | 0.9 |
| – manufacture of computers and other electronic products, optical and electrical | 413 | 0.8 |
| – other manufacturing industries | 249 | 0.5 |
| Electricity, gas and water | 2098 | 4.0 |
| Trade | 3394 | 6.5 |
| Constructions and real estate | 2367 | 4.5 |
| Information and communication technology | 1533 | 2.9 |
| Financial intermediation and insurance | 1428 | 2.7 |
| Transport | 536 | 1.0 |
| Professional, scientific, technical and administrative and support services | 492 | 0.9 |
| Agriculture, forestry and fishing | 457 | 0.9 |
| Hotels and restaurants | 263 | 0.5 |
| Other | 99 | 0.2 |

Source: NBR and NIS data.

As we can see in Table 5, the share of tangible and intangible assets in the sector of financial intermediation and trade is much lower, which means a specific character of investments, costs and assets in the respective branches.

The territorial distribution of FDI in Romania reveals the orientation preponderantly towards the development BUCHAREST-ILFOV region (62.2 %), other FDI beneficiary development regions in a relatively important amount being the CENTRE region (7.4 %), the SOUTH MUNTENIA region (7.3 %), the WEST region (6.5 %) and the SOUTH-EAST region (6.3 %), which provide more attractive business opportunities to foreigners. The region NORTH-EAST is less attractive to foreign investors, i.e. only 2.4% of the total foreign direct investments.

On analysing the territorial distribution of FDI, we should also take in to account the fact that FDI localisation in relation to the headquarters of direct investment enterprises does not always coincide with the place in which the economic activity takes place (Pauna, C.B., Dumitrescu, I., 2005).

Considering the high degree of FDI concentration in Bucharest, the question is whether they are not rather a factor of regional disparities growth than one of diminution. The concentration of FDI in the Bucharest-Ilfov region is explained by infrastructure conditions and, in general, by the relatively attractive business environment. The Sectoral Operational Programme (SOP), in particular the Regional Development Operational Programme 2007-2013 co-financed through the Structural and Cohesion Funds represent precisely a factor of counter-acting this regional concentration of FDI. For the time being, the absorption degree of structural funds is very low so that there can be no mention of a substantial contribution of the latter to balanced development in territorial profile of Romania and diminution in inter- and intra-regional gaps.

Table 6. Foreign direct investment in Romania on 31st December 2010. Distribution on development regions

| | Total | |
|---|---|---|
| | Value (million Euros) | % of total FDI |
| Total, of which: | 52585 | 100.0 |
| BUCHAREST-ILFOV | 32720 | 62.2 |
| CENTRE | 3909 | 7.4 |
| SOUTH-MUNTENIA | 3816 | 7.3 |
| WEST | 3446 | 6.5 |

| | Total | |
|---|---|---|
| | Value (million Euros) | % of total FDI |
| SOUTH-EAST | 3290 | 6.3 |
| NORTH-WEST | 2232 | 4.2 |
| SOUTH-WEST OLTENIA | 1928 | 3.7 |
| NORTH-EAST | 1244 | 2.4 |

Source: NBR and NIS data.

The distribution of the FDI stock, depending on the capital's country of origin (Table 7), highlight an unequal distribution between countries and a concentration of the latter in EU countries (Anghel, I., 2002; Bonciu, F., 2003; Matei, M., 2004).

Table 7. Foreign direct investments in Romania on 31st December 2010, by countries of origin

| | 2007 | | 2010 | |
|---|---|---|---|---|
| | Total | | Total | |
| | Value (million Euros) | % of total FDI | Value (million Euros) | % of total FDI |
| Total, of which: | 42770 | 100.0 | 52585 | 100.0 |
| Netherlands | 6988 | 16.3 | 10903 | 20.7 |
| Austria | 9161 | 21.4 | 9346 | 17.8 |
| Germany | 5020 | 11.7 | 6398 | 12.2 |
| France | 3759 | 8.8 | 4384 | 8.3 |
| Greece | 3192 | 7.5 | 3016 | 5.7 |
| Italy | 2617 | 6.1 | 2808 | 5.3 |
| Cyprus | 2015 | 4.7 | 2550 | 4.9 |
| Switzerland | 2191 | 5.1 | 2021 | 3.8 |
| United States of America | 581 | | 1349 | 2.6 |
| Spain | 474 | 1.1 | 1064 | 2.0 |
| Luxembourg | 633 | 1.5 | 989 | 1.9 |
| Czech Republic | 341 | 0.8 | 972 | 1.8 |
| Belgium | 477 | 1.1 | 864 | 1.6 |
| Hungary | 738 | 1.7 | 717 | 1.4 |
| Great Britain | 395 | 0.9 | 627 | 1.2 |
| Turkey | 822 | 1.9 | 615 | 1.2 |
| Denmark | 42 | 0.24 | 384 | 0.7 |
| British Virgin Isles | 387 | 2.19 | 379 | 0.7 |
| Sweden | 366 | 0.9 | 312 | 0.6 |

| | 2007 | | 2010 | |
|---|---|---|---|---|
| | Total | | Total | |
| | Value (million Euros) | % of total FDI | Value (million Euros) | % of total FDI |
| Lebanon | 71 | 0.4 | 254 | 0.5 |
| Poland | 125 | 0.3 | 211 | 0.4 |
| Canada | 256 | 0.6 | 207 | 0.4 |
| Portugal | | | 206 | 0.4 |
| Gibraltar | 8 | 0.05 | 161 | 0.3 |
| EBRD (European Bank for Reconstruction and Development) | 103 | 0.2 | 158 | 0.3 |
| Finland | 9 | 0.05 | 156 | 0.3 |
| Israel | 185 | 0.4 | 155 | 0.3 |
| Japan | 86 | 0.5 | 154 | 0.3 |
| Ireland | - | - | 146 | 0.3 |
| Other countries* | - | - | 1079 | 2.1 |

* Countries with investments below 100 million Euros.

Source: NBR data.

The first 5 countries classified according to their share in FDI stock on 31st December 2010 are: the Netherlands (20.7%), Austria (17.8%), Germany (12.2%), France (8.3%), and Greece (5.7%), a hierarchy which is approximately similar to the one of the previous years.

The largest share of FDI in Romania originates from EU member countries (over 70%), which determines a certain economic dependency of our country on the economic development of the respective countries, the economic situation of these countries having a strong impact on the Romanian economy. The current international economic crisis generated a series of new approaches and revisions related to the external opening degree of a national economy (UNCTAD 2010a), and the requirement of creating buffer funds against external contagion risks, generated by the shocks of the international crisis, including a certain relative independence of some major fields of the economic and social activity.

## 1.2. FDI typology

The flow of equity stakes to FDI enterprises, amounting to 4067 million Euros in 2010, is differentiated the categories *Greenfield, mergers and acquisitions and corporate development*.

*Greenfield investments* recorded a very low level of only 46 million Euros, representing 1.1 percent equity stakes in enterprises with foreign direct investments, the same situation being registered also for the investments of the mergers and acquisitions category (M&A), with 93 million Euros (2.3% equity). The predominant share in the equity stake flow in 2010 was held by *corporate development* in amount of 3 928 million Euros, and 96.6% from the equities, respectively which reveals among others also a slowdown of the diversification process of exports during periods of crisis, and a trend of investing in cost diminution and manufacturing technologies improvement, as well.

In order to estimate the long-term impact of Greenfield investments on the economy, also the accumulations of direct foreign investments (stocks) in enterprises set up by Greenfield investments, called Greenfield enterprises were highlighted.

Foreign direct investments in *Greenfield enterprises* were oriented predominantly towards manufacturing industry (13.9% of FDI stock). Other branches in which these investments have a significant share are: trade (10.2%), financial intermediation and insurance (6.8%), constructions and real estate (5.5%). Also, in these situations we notice a prevalence of investments in the services sector (22.5%), as compared with the manufacturing industry. From the experience of other emerging economies, but as well as Romania's, the increase in absolute and relative terms of the services sector under the conditions of diminution in absolute and relative terms the manufacturing industry does not represent the evidence for a sustainable development of the economy, given that a large part of services pertain to the vulnerability and volatility of the speculation and pseudo-tertialisation sector with the highest crisis potential and pro-cyclical propensity.

The majority of direct foreign investments in *Greenfield enterprises* are concentrated, just as all FDI, in the BUCHAREST-ILFOV region (30 per cent of the FDI stock) followed by the CENTRE region with 5.3% and the WEST and SOUTH MUNTENIA regions with 3.9%, and 3.2% respectively. The largest investments in *Greenfield enterprises* come from Germany (8.5% of the FDI stock), followed by the Netherlands (8.4%), Austria (5.6%) and Italy (4.2%).

We emphasise the low share of foreign *Greenfield* investments that should have contributed to a larger extent to strengthening the functional market economy in Romania.

The experience of the state-owned enterprises with strategic foreign investors in Romania highlighted a series of inadequacies with respect to FDI volatility, the change in the activity profile or bankruptcy of these enterprises, which contributed to the "de-structuring" and "de-industrialisation" process of the domestic economy and of its export efficiency. Several foreign investors did not comply with their post-privatisation investment programmes, have benefited from their dominant position based only on the subscribed capital to companies without also ensuring the capital they undertook to pay, have changed the production activity profile or bankrupted entire production activities by advantageously selling just a few lands or scrap iron for exports.

We emphasise that at world level, as opposed to Romania, , the highest level of FDI[1], in the years 2009 and 2010, was held by manufacturing industries with an increasing share of 37% to 48%, followed by services on decrease from 33% to 30% and the primary sector on increase with a share from 33% to 32%.

FDI within the financial sector, regarded by most experts as the "epicentre" of the current international economic crisis, recorded a decrease in absolute stock and share, a trend to continue. In Romania, to the contrary, the highest share of FDI is held by the services sector, in particular financial and consulting services, which generated the bubbles, suffering from contagion caused by their explosion at world level. The change in priorities in Romania in the FDI field for stimulating foreign investments in manufacturing industries, in particular in high-tech branches, but also in the primary sector, agriculture, and mining, represents, we believe, one of the paths towards sustainable economic development, unlike FDI within the financial services and of other predominantly speculative nature, which achieve unjustified high profits without a sound value added support in the real economy.

## 2. Transnational corporations with state ownership

Policies in the FDI field are directly related to industrial policies within the main objective of "re-industrialisation" of the country in the new conditions of competitive market and markets' globalisation (ASPE, 2010). In this context the transnational corporations play a very important role. They are not only private, but also public companies such as the ones from France (EDF), Japan (Japan Tobacco Inc.), China (Sinopec Group), USA (Constellation Energy Nuclear Group LLC), etc. In case that the autonomy of the state TNC is high, they behave just as private companies. Thus, from the 653 existing state TNCs in 2010 worldwide, a share of 43.6% are in developed countries, of which 34.2% in EU member countries, and the rest in developing countries.

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*[1] See UNCTAD – World Investment Report 2011, p34 (http://www.unctad-docs.org/files).*

The state contribution to the equity capital of non-financial TNC[1] differs from one corporation to the other, between very high limits (84.7% - EDF SA France; 36.4% - GDF Suez, France; 32% - General Motors Co; 50% Japan Tabacco Inc; 12% - Tata Steel Ltd.India; 31.7%, Deutsche Telekom AG, Germany; 18.3% - Renault SA France; 3.2% - Finmeccanica Spa Italy; 39.8% - Petroleo Brasileiro, Brasilia; 100% - Petroleos de Venezuela SA, Venezuela; 100% - China National Petroleum Corporation, China etc.).

Transnational Corporations State-Owned Enterprise-(TNC SOEs) at world level exist, practically, in several sectors and fields among which we mention: electricity, gas and water; motor vehicles, utilities, telecommunications; oil and natural gas extraction and distribution; transport and warehousing; extractive industry and quarries; food, beverages and tobacco, machinery and equipment; metal and metal goods.

In the field of services, most state-owned TNCs are in transports, warehousing and communications, finance, trade, etc.

According to some UNCTAD estimates, about 70% of state-owned TNCs at world level operate in the services sector, in particular, financial services, with a share of 19% of total TNCs, followed by transport, warehousing and communications (16%), electricity, natural gas and water (10%). The rest of 22% pertain to manufacturing industries, mainly, motor vehicles and transport equipment (4%), chemical products (3%), metal and metallic goods (3%), and the extractive-mining sector has a share of 8-9%.

Considering the international experience with respect to the existence and operation of some state-owned transnational companies, there are naturally some questions regarding Romania's situation:

- What are the reasons why Romania, all in all, as a state has "privatised" a series of companies which entered under the control of other states and not the private sector?
- During the crisis period is it advisable to sell almost all the remained minority share of the Romanian state, when share selling prices are low due to imbalance markets?
- Is a "total" disengagement of the state from economy possible?! As shown by the variety of existing public-private partnership

[1] *See World Investment Report 2011, Non-equity modes of international production and* developement, UNCTAD, Geneva, p30.

schemes, this thing did not occur even in the so-called most liberal economies, in particular during crisis;

- Who can better manage a series of fields targeting the production of public goods and services among which also those of natural capital protection, education, RDI in which the market mechanisms as such failed?

State-owned transnational corporations, as shown in the World Investment Report 2011, "*tend to be most active in financial services and capital-intensive industries, and require monopoly positions in order to gain the required scale economies or have the quality of being of strong vested country interest*" (World Investment Report 2011, p. 31) .

Table 8. Public ownership of TNCs
in 2011, world-wide.

| weight of the value of the state's shares in total share value | <10% | 10%-50% | 51%-100% | 100% |
|---|---|---|---|---|
| Share of the number of state-owned TNCs against the total number depending on the percentage of the held shares. | 10% | 32% | 44% | 14% |

Source: UNCTAD based on 653 TNC 1.

The data in Table 8 show that in a proportion of 58% of the all state-owned TNCs, most of the shares are owned by the state, which represents a sui generis economic agent. We consider as absolutely necessary to substantiate some strategies and policies with respect to the state sector, the involvement of the state in partnerships with foreign investors (UNCTAD, 2011a) so that well and clearly defined national interests are achieved, whether they are or not congruent or converging with the ones of the foreign capital (Lipsey, R., 2002).

According to the precautionary agreement signed by Romania with IMF with respect to the privatisation of some state-owned companies in 2012, the most valuable state-owned companies shall be privatised, as follows:

- privatisation with strategic investors of the majority shares for the Power Complex Oltenia (brown coal, power), of the Electric Power Supply Company Electrica Serv., pit coal viable mines, and the thermal power plants Mintia, Paroşeni, Oltchim and Cuprumin;

- the sale on the stock market of a package of 15% from Transelectrica and Transgaz, and 9.81% of the shares in Petrom, 15% of Romgaz and each 10% of Hidroelectrica and Nuclearelectrica. According to the estimates of some experts[1], from listing the majority share packages of Hidroelectrica, Romgaz and Nuclearelectrica the state estimates that it would cash about 875 million Euros, while they value together about 7.4 billion Euros, as estimated by the investment company Capital Partners.

The privatisation of these state-owned companies is firstly determined by the state's need to cash money, due to the pressure of reimbursing external debts in due time. As time, the privatisation of these objectives take place during the crisis period when offered prices are much lower and the demand even less. Thus, the moment is not favorable for privatisation.

Secondly, the state will lose an income source on long-term for an amount which, anyway, covers but a small part of the public debt on short-term to foreign lenders.

On the other hand, the mentioned companies have a strategic character, which, irrespective of their ownership form, presupposes the adequate involvement of the state similarly to other countries that were mentioned.

Last but not least, another question appears, that is how in other countries the state shows performance in exercising ownership and manager prerogatives, and in Romania the state intends to get rid of all assets, in particular in key fields such as utilities, soil riches, and energy, etc.

The answer cannot be unilaterally given, but taking into account a multitude of economic, political and social factors, etc., among which also the institutional capacity and managerial performance of state institutions.

## 3. FDI incomes: reinvested and repatriated earnings

One of the major strategic issues of FDI enterprises and of the host state is that regarding profitability and incomes achieved by the foreign capital from the viewpoint of economic and social impact at internal and external level.

Even though the subsidiaries of multinational corporations or other strategic investors have a legal person statute similar to that of domestic investors (enterprises), they have a series of particularities with respect to the profitability

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[1] *See: http://ro.news.yahoo.com/statul-%C3%AE%C5%9Fi-vinde-perlele-energetice-192500.*

level, as compared with domestic manufacturers, on one hand, but also to the way of using profit or incomes achieved in the host country, by **reinvestment** or, in the destination country, by **repatriation**, on the other hand.

In accordance with the most recent UNCTAD data, the repatriated earnings of FDI companies, as a rule, is higher than the one reinvested in the economy of the host country, which emphasises a higher advantage for foreign investors than for national economies where the TNCs subsidiaries are located (Burnstein, A., 2005; Durham, K.B., 2004; Borensztein, E., 1998).

Table 9. The share of the value stock at world level of reinvested and repatriated earnings by foreign capital companies in the period 2005-2010

| | Years | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Reinvested earnings (% of total earnings) | 24.7 | 30.8 | 40.3 | 23.4 | 24.4 | 40.0 |
| Repatriated earnings (% of total earnings) | 75.2 | 69.1 | 59.7 | 76.5 | 75.5 | 60.0 |

Source: Own estimate based on World Investment Report 2011 data.

The data in Table 9 and also other analyses of the TNC subsidiaries' earnings highlight the following more important aspects:

a) at world level, the reinvested earnings in "host" countries are, as a rule, 1 to 3 times lower than the repatriated ones, which highlights the fact that TNCs are profitable, in general, and pursue, justifiably, first of all their own interests, their volatility in the host country being determined not that much by bankruptcy or insolvency situations, but by the new earning opportunities in other host countries where they can record higher competitive advantages and profits;

b) in the crisis years 2008 and 2009, the share of repatriated earnings was relatively higher than that of the reinvested ones due to the decrease, in general, in the value stock of total TNC earnings;

c) the reinvested earnings (Lundan, S., 2006) do not mean just additional expenditures for increasing the TNC production capacity in the host country, but also creating reserve funds for unforeseen situations or for use in monetary exchanges under favourable situations, so that their contribution to gross capital formation is not equal to the entire reinvested profit;

d) the decision regarding the size of reinvested earnings is taken by the parent company for its subsidiaries depending on their expansion objectives, on the operational costs in the case of start-up companies, or on modernisations;

e) even though acceptable for the first years of TNCs subsidiaries' functioning under conditions of loss, low profitability or total reinvestment of earnings, the recovery both of losses and of the investment as a whole is realised during the entire period of efficient exploitation of the subsidiaries.

Table 10. Incomes achieved by FDI in Romania, reinvested and repatriated earnings in the period 2003-2010 (Mill.Euros)

| Years | Incomes achieved by FDI | Net incomes from interests | Repatriated earnings (distributed dividends) |
|---|---|---|---|
| 2003 | 1047 | 29 | 446 |
| 2004 | 2083 | 66 | 568 |
| 2005 | 2352 | 87 | 1101 |
| 2006 | 3313 | 61 | 584 |
| 2007 | 4350 | 266 | 2757 |
| 2008 | 6412* | 634 | 2696 |
| 2009 | 4496* | 475 | 1608 |
| 2010 | 4222* | 764 | 1970 |

* the total loss of FDI in the respective years was not taken into account.

Source: NBR and NIS data based on exhaustive research of 6473 foreign direct investment enterprises, comprising enterprises with at least 20 employees (6242 units), all credit institutions with foreign capital (40 units), all insurance trading companies with foreign capital (34 units), as well as enterprises regarded as non-typical, all foreign direct investment enterprises that have a turnover or share capital of at least 30 million RON (157 units). The representativeness at regional development level and NACE division is ensured by the foreign direct investment enterprises, exhaustively researched, which have a share of 87.3% in the FDI stock. The numerous foreign direct investment enterprises that were not included in the exhaustive statistical research (about 36900) is represented by the sample of 1050 units. The total volume of researched units (exhaustively plus sample) was 7523. The error degree of the statistical research outcome regarding foreign direct investments in Romania (flows and stocks) is $\pm$ 3%, and guaranteed with a probability of 97%.

In Romania, FDI companies have repatriated between 2003 and 2010 a value stock of distributed dividends of 11.730 billion Euros to which 2,382 billion Euros are added from net incomes realised from interests, that is total repatriated earnings of 14.112 billion Euros for a capital stock in 2010 of about 52 billion Euros (Table 10), the equivalent of some kind of "Return on Investment" (ROI) of 27%, which shows a situation of high profitability.

We notice the fact that, also during the crisis years 2008-2010, the FDI enterprises have distributed lower dividends than in 2007, and that net incomes from interests followed a general increase trend with higher or smaller variations from one year to another.

World Bank data (http://businessday.ro/12/2010) indicate that in the period 2005-2009 TNC have repatriated earnings of about 19 billion Dollars (14 billion Euros), in 2009 their value being of 1.54 billion Dollars, 65% less than in 2008, which data are close to our estimates (Table 10).

With respect to reinvested earnings, more certain data were available for the period 2003-2007, when the cumulated value of the aforementioned was of 7.188 billion Euros. In the period 2008-2010 due to losses and to the methodological computation change it was no longer possible to rigorously determine the size of reinvested earnings. Anyway, we estimate that repatriated earnings of FDI from Romania were about twice as high than the one reinvested in Romania, which is close to the share at world level.

The relation between reinvested and repatriated earnings of foreign companies in Romania differs from one sector to another, from one company to the other, so that it is difficult to determine standard milestones of profitability. Yet, it is important to apply the principle of cost-benefit analysis for each involved party, so as to be able to determine the size of economic efficiency to a large extent, and not strictly financially, which presupposes add also a series of externalities (negative and/or positive) to the direct financial costs and benefits to, in other words to determine FIRR[1](Financial Internal Rate of Return) and EIRR[2] (Economic Internal Rate of Return), which are based on the discounting technique and choosing an adequate discount rate.

The use of the cost-benefit analysis provides for the possibility to determe the size of the beneficiary that pertains to one unit of expenditures for each involved

[1] *FIRR – financial internal rate of return.*
[2] *EIRR – economic internal rate of return.*

party, and to avoid sharp and inequitable efficiency gaps between partners beyond certain acceptable confidence intervals.

## 4. Exports and imports of foreign direct investments enterprises

We shall analyse in this chapter the impact of FDI enterprises on imports to and exports from Romania, taking into account the fact that these enterprises control a share of about 70% of the foreign trade volume of the country. The respective impact (Zaman Gh., 2006; Zaman Gh., Vasile V., 2006) can be analysed:

- in relative terms, as size of export and import share of FDI companies in total volume of the country's exports and imports;
- in absolute terms as difference between exports and imports in order to see the favourable/unfavourable contribution of the respective companies depending on the trade balance of the country.

The foreign direct investment enterprises' activity contributed to exports in 2007 with a share of 70.8%, while their imports represented 59.2% from all country's imports. These shares are higher and show undoubtedly the strong control that FDI enterprises exercise on imports and exports to and from Romania.

Table 11. Absolute and relative contribution of FDI firms to total exports and imports of Romania, in 2007-2009

| | Exports (FOB) | | Imports (CIF) | | Balance of trade Million euros |
|---|---|---|---|---|---|
| | FDI enterprises Million euros | % of total branch | FDI enterprises Million euros | % of total branch | |
| Year 2007 | | | | | |
| Total, of which: | 20563 | 70.8 | 29675 | 59.2 | -9139 |
| Industry, of which: | 18273 | 77.5 | 18111 | 78.2 | +126 |
| -Manufacturing | 17349 | 77.2 | 17252 | 78.2 | +97 |
| -Retail and wholesale | 1876 | 62.7 | 9646 | 47.7 | -7770 |
| -Other | 414 | 16.8 | 19.18 | 28.5 | -1504 |
| Year 2008 | | | | | |
| Total, of which: | 21126 | 73.0 | 32715 | 62.6 | -11588 |
| Industry, of which: | 18560 | 83.4 | 20492 | 83.2 | -1932 |
| - Manufacturing | 17165 | 83.1 | 19206 | 83.0 | -2041 |
| - Retail and wholesale | 1985 | 53.8 | 10358 | 48.8 | -8372 |
| -Other | 580 | 19.3 | 1864 | 32.9 | -1283 |

| | Exports (FOB) | | Imports (CIF) | | Balance of trade Million euros |
|---|---|---|---|---|---|
| | FDI enterprises Million euros | % of total branch | FDI enterprises Million euros | % of total branch | |
| Year 2009 | | | | | |
| Total, of which: | 19643 | 69.8 | 22525 | 60.1 | -2882 |
| Industry, of which: | 17264 | 79.3 | 15155 | 76.5 | +2109 |
| - Manufacturing | 16440 | 79.7 | 14423 | 78.8 | +2017 |
| - Retail and wholesale | 1827 | 51.7 | 6214 | 45.4 | -4387 |
| -Other | 552 | 19.3 | 1156 | 29.0 | -601 |

Source: BNR and INS data processing.

If we compare the size of percentage contributions of FDI companies' exports and imports to total country's exports and imports in 2007, we could consider that it was a positive one, meaning that they held the highest shares, against agents with domestic capital.

Yet, from the viewpoint of the trade balance stock, the contribution was unfavourable because imports exceed in value the exports.

The analysis of data in Table 11 regarding exports and imports of FDI economic agents highlight the following aspects for the period 2007-2009:

- during the entire period, the trade balance was negative – which means that at macroeconomic level the FDI economic agents have more imports than exports, contributing thus not to creating the foreign currency proceedings for diminishing the Romania's external debt but to its increasing; also the forecasts for the future years of the National Commission for Prognosis provide for a perpetuated deficit of the trade balance up to 2016;
- the main generator of trade deficit is represented by economic agents with foreign capital in the sector of wholesale and retail trade (- 7.77 billion Euros in 2007, -8,372 billion Euros in 2008; -4,387 billion Euros in 2009);
- in the crisis year 2009, against the year 2008, a strong decline is recorded in foreign trade of FDI enterprises of respectively -7.5% for exports and -44.7% for imports, which practically meant a strong shock for the entire national economy which had to bear the contraction of demand and supply on external markets, first of all on the EU market;
- the industry contributed positively to the trade balance of Romania in the years 2007 and 2009, respectively, and with a negatively in the year 2008,

hence the conclusion might be drawn that industry, in particular the manufacturing one, has the highest potential to diminish the negative size of the Romanian trade balance based on the increase advance of exports against imports;

- the sector "other activities", which includes other types of services, aside from trade, for the entire period 2007-2009, has recorded a deficit in the trade balance on decrease from 1.5 billion Euros in 2007 to -601 mill. Euros in 2009 as result of the external and internal economic crisis impact.

In Table 12 we have presented desegregated data on Romanian exports and imports in view of a more detailed analysis of FDI economic agents' contribution by economic sectors and sub-branches of the manufacturing industry to the whole trade balance of Romania.

Table 12. The contribution of FDI companies to Romania's exports and total imports in 2010

| | Exports (FOB) | | Imports (CIF) | | Trade balance (+/-) |
|---|---|---|---|---|---|
| | FDI enterprises (mill. euro) | % FDI enterprises in total economy* | FDI enterprises (mill. euro) | % FDI enterprises in total economy * | |
| TOTAL | 25950 | 72.4 | 28181 | 62.5 | -2231 |
| Industry | 22887 | 63.8 | 19923 | 44.2 | +2964 |
| Mining and quarrying | 582 | 1.6 | 696 | 1.6 | -114 |
| Manufacturing, of which: | 21934 | 61.2 | 18849 | 41.8 | +3085 |
| – food, beverages and tobacco | 314 | 0.9 | 978 | 2.2 | -661 |
| – cement, glass, ceramics | 139 | 0.4 | 265 | 0.6 | -126 |
| – manufacturing of wood products including furniture | 1223 | 3.4 | 396 | 0.9 | +827 |
| – manufacture of computers and other electronic products, optical and electrical | 3652 | 10.2 | 3426 | 7.6 | +226 |
| – machinery and equipment | 1020 | 2.9 | 546 | 1.2 | +474 |

| | Exports (FOB) | | Imports (CIF) | | Trade balance (+/-) |
|---|---|---|---|---|---|
| | FDI enterprises (mill. euro) | % FDI enterprises in total economy* | FDI enterprises (mill. euro) | % FDI enterprises in total economy * | |
| – metallurgy | 2725 | 7.6 | 1572 | 3.5 | +1153 |
| – transport | 6713 | 18.7 | 4820 | 10.7 | +1893 |
| – refined petroleum, chemicals, rubber and plastics | 2947 | 8.2 | 4414 | 9.8 | -1467 |
| – textile, clothing and leather | 2983 | 8.3 | 2095 | 4.6 | +888 |
| – other manufacturing industries | 218 | 0.6 | 337 | 0.7 | -119 |
| Electricity, gas and water | 371 | 1.0 | 378 | 0.8 | -7 |
| Professional, scientific, technical and administrative and support services | 47 | 0.1 | 218 | 0.5 | -171 |
| Agriculture, forestry and fishing | 334 | 0.9 | 91 | 0.2 | +243 |
| Trade | 2495 | 7.0 | 7138 | 15,8 | -4643 |
| Construction and real estate | 48 | 0.2 | 145 | 0.3 | -97 |
| Hotels and restaurants | 3 | 0.0 | 13 | 0.0 | -10 |
| Information and communications technology | 39 | 0.8 | 467 | 1.1 | -428 |
| Financial intermedia-tion and insurance | 66 | 0.2 | 71 | 0.2 | -5 |
| Transport | 28 | 0.1 | 100 | 0.2 | -72 |
| Other | 3 | 0.0 | 15 | 0.0 | -12 |

* does not include exports and imports corresponding to the NACE divisions 84, Public Administration, 97/98, Activities of population households, and 99 Extraterritorial activities.

*Note: Exports and imports are aggregated according to the main activity of the companies, in accordance with NACE Rev. 2. Exports and imports of FDI enterprises are corresponding to companies exhaustively researched (which have more than 20 employees). The data regarding export and import in the whole economy, taken into account on determining the relative sizes are the ones reported by economic agents exceeding the value thresholds of reporting for 2010, determined for the Intrastat statements.*

Source: NBR data processing.

The activities with trade balance deficit are: extractive industry; food, beverages and tobacco; cement, glassware, ceramics; oil processing; chemical products; rubber and plastic; other branches of the manufacturing industry; other professional, scientific, technical and administrative activities and support services; trade; constructions; hotels; financial intermediation; transports, other activities. We emphasise that the branches with negative impact on trade balance include some which have favourable production conditions in Romania and which were before net exporters, such as: food, cement, glassware, petro-chemistry, and plastic, etc.

Manufacturing industry is the main branch with trade surplus (3.085 million Euros), mainly due to the sub-branches *transport means* (surplus 1893 million Euros), *steel industry* (surplus 1153 million Euros) and *machinery, tools and equipment* (surplus 474 million Euros).

*Agriculture, forestry and fishing*, even though recording low level of FDI (2% from the FDI stock on 31 December 2010), constitutes the second branch of the economy in which FDI enterprises have an aggregated trade surplus (243 million Euros), although not very high.

In all other branches, the FDI enterprises have recorded trade deficit, which poses serious problems in promoting exports and replacing competitive imports.

In conclusion, we draw to attention the following issue: as long as exports of FDI companies are lower than their imports, and their shares in total exports of Romania represent about 70%, it can be stated that the exports of the respective companies as a whole have a favourable influence on the trade balance and *ipso facto* on the external balance of payments and on the current accounts balance? The answer to this question is complex and, consequently, requires a series of in-depth analyses in order to see to what extent FDI can be a necessary “good” or “evil” from the economic, social, political and environmental viewpoint. The only decisional level that has the necessary levers by promoting adequate economic and trade policies, in accordance with the provisions of the current EU regulations are the Romanian state decision-makers that, among others, might resort to derogatory clauses for safeguarding some national outputs, the substitution of competitive imports, promoting eco-industries, initiation of anti-dumping procedures, protection of natural capital and environmental standards, etc.

The national export strategy should take into account that about 70% of the total volume of Romanian exports pertain to enterprises with foreign capital stock, which, as assumed, in general, include goods and services with a high level of competitiveness, given the management and technological expertise of foreign investors, as well as the relatively high level of domestic labour skills and which is relatively poorly remunerated as against the wage levels from the FDI's country of origin, as well as the relatively low level of prices and tariffs in Romania.

The main issue posed by exports of enterprises with foreign capital headquarter in Romania is not the one of the competitiveness level but the extent to which this level has a direct and indirect positive propagation effect within the national economy on short, medium and long term (spillover or positive externalities). From this viewpoint, if earnings are integrally repatriated to the parent company abroad, then the impact on investments in Romania is very low or inexistent, having as favourable effect the wage earnings of the employees working in foreign companies which sometimes might be under the level of the wages paid by Romanian companies, as well as a series of advantages related to increasing the expertise and skill level, the use of some raw material resources, fuel and energy in reality and a better formal confidence in complying with environmental standards.

On the other hand, a series of aspects should not be neglected about the so-called "immiserizing or pauperty" exports which, due to the low level of value added, and the high content in natural capital, export might generate environmental and economic prejudices on medium and long term as well as a long term disadvantage for the sustainable development.

## 5. Macroeconomic particularities of the competitiveness, prices and exports relationship in Romania

As compared with the GDP development, the retail trade turnover and the exports' evolution record much higher fluctuations of 2 times and 4 to 5 times respectively as they are more sensitive to the impact of some political economy measures taken at the level of the central or local public authorities. According to some experts[1], if some drastic measures had not been taken by the Government, as of July 2010, represented by cutting wages in the budgetary sectors and VAT increases, the engine of exports would have brought alone the national economy on the trajectory of positive GDP growth already in the 3rd

*1 See A. Cooper, Exporturile au o influență mai mare asupra PIB, decât ponderea de 33% ["Exports have a higher influence on GDP than the share of 33%", in Romania], „Ziarul financiar" nr.3225, 10 august 2011, p.3.*

quarter of 2010. The triggering effect of exports for the entire national economy (upstream and downstream)[1] would have been much higher.

### 5.1 Cost of exported Romanian products

As a fundamental factor of external competitiveness, Romanian goods costs and prices for export depend not only on the level of the competitive prices on external markets for the respective goods, but also on the operational production costs of the latter on the internal market, their forced and artificial increase having as outcome a competitiveness decrease of Romanian goods on the final segment of the manufacturing industries goods, including food and textile industries. For instance, interposing between manufacturers and consumers (domestic and/or external) some private go-betweens, electric energy traders on the Romanian market, triggers sometimes tripling the price of electric energy, which, as known, represents an important component of any good or service, both consumed inside the country, but also for export. Cost charging grows as the goods and services nomenclature is larger and diversifies.

Table 13. Top of the largest private electricity traders

| Poz. | Company | Turnover (mil.euro) | | Net profit (mil.euro) | | Number of employees | shareholders |
|---|---|---|---|---|---|---|---|
| | | 2010 | 2009 | 2010 | 2009 | | |
| 1 | Tinmar Ind | 174.5 | 96.1 | 5.2 | 2.7 | 45 | Oancea Augustin Constantin |
| 2 | Energy Holding | 154.3 | 148.3 | 3.6 | 2.0 | 51 | Marken Investment & Trading (Netherlands) |
| 3 | Alpiq Romenergie | 142.0 | 116.6 | 17.9 | 26.2 | 13 | Alpiq AG (Switzerland) |
| 4 | Alpiq Romindustries | 124.4 | 98.8 | 15.5 | 16.3 | 18 | Alpiq AG (Switzerland) |
| 5 | Energy Financing Team România | 96.5 | 89.6 | 0.9 | 1.1 | 4 | EFT Investment Limited (Cyprus) |
| 6 | EGL Gas &Power | N/A | 84.1 | N/A | -3.5 | 16 | EGL (Switzerland) |

[1] *See the reflection of exports in the input-output models within which $P_E$= necessary production for realising a certain export stock and structure is equal to the inverse product matrix of the technical coefficients $(I-A)^{-1}$, where I is the unit matrix and A the matrix of direct expenditure coefficients, and the export vector E is a component of final demand J.*

| Poz. | Company | Turnover (mil.euro) | | Net profit (mil.euro) | | Number of employees | shareholders |
|---|---|---|---|---|---|---|---|
| | | 2010 | 2009 | 2010 | 2009 | | |
| 7 | Transenergo Com | 82.4 | 53.5 | 1.0 | 0.7 | 13 | Rada Coman, Ileana Olah |
| 8 | Repower Furnizare România (fosta Elcomex EN) | 82.2 | 70.6 | 1.0 | 0.4 | 26 | Repower (Switzerland) |
| 9 | Rudnap | 75.7 | 9.8 | 0.03 | 0.02 | 3 | Altaria Research Limited (Cyprus) |
| 10 | Petprod | 54.1 | 42.0 | 2.3 | 3.8 | 3 | Jack Cutişteanu |

Source: Ministry of Finance data, Ziarul Financiar, 30 august 2011, p.7.

Energy Holding was the company that dominated the private trade with energy in the last years, switching from a business of few million Euros to a maximum of over 200 million Euros. The background of this development was the long-term contract that the company had and continues to have currently with Hidroelectrica, the cheapest electricity producer in Romania. Energy Holding continues to be the top client of the state-owned company, after Alro, the main electric power consumer in Romania. In 2010, the company Tinmar Ind. went to the top position.

The data published by the Ministry of Finance indicate that, in 2010, the businesses of 154.3 million Euros recorded by Energy Holding were exceeded by the business of 174.5 million Euros recorded by Tinmar Ind, a company not on the list of customers for cheap energy of Hidroelectrica.

The company Tinmar Ind entered the electric energy supply business in April 2007. Currently, it has a portfolio of over 80 companies, and in 2010, 60 customers.

In accordance with the National Regulation Agency in the Field of Energy (ANRE), Tinmar Ind is the company that recorded the highest growth of sold energy quantities on the competitive segment (where sellers meet large energy consumers), the company doubling its deliveries on this market.

Thus, the turnover of the company Tinmar Ind increased from 96 million Euros in 2009 to 174.5 million Euros in 2010.

Another example of extremely profitable trading aims at the new entry in 2011 top of the first 10 players in the private trade with electric energy of the company Rudnap, a local subsidiary of a Serbian group that in 2010 obtained a large export contract for electric energy.

In the autumn of 2010, by Order of the Minister, the largest energy producers in Romania achieved a basket of 500 MW for a one year period. This basket was managed by Electrica and sold by Rudnap through a transaction, accused, at the time, by several market traders as lacking transparency.

Rudnap, which had then and still has only 3 employees, achieved in one year from a business of 9.8 million Euros a business of 75.7 million Euros, by the end of 2010.

From Table 13 it also results that the largest electric energy trades on the Romanian private market, as profit size, are those of Alpiq Romenergie, Alpiq Romindustries.

In accordance with the data provided by the Ownership Fund, in 2010, Alpiq Romenergie has purchased from the state-owned electric energy producer 1.8 Tmh with approximately 52 million Euros, and by the end of 2010 into the accounts of Alpiq Romenergie were included business in value of 142 million Euros, a fact “inducing” the idea that this company sells what it buys from Hidroelectrica to a much higher price (approximately 3 times higher), and thereby the producing Romanian company loses important amounts in favour of Alpiq Romenergie and detrimental to consumers. The same situation is found also in the case of Alpiq Romindustries a company controlled by the Swiss from Alpiq who bought in 2010 energy from Hidroelectrica in value of 45 million Euros which allowed the company to reach by the end of the year a turnover of over 124 million Euros from the energy trading activity on the liberalised competitive market.

The number of employees of the two companies is 13, 18 persons respectively, and it can be deduced that they achieve a very high turnover volume for the profit on employee from the intermediation activity which is based, undoubtedly, on the determinant role of electric energy production in Romania. In case that trading is more profitable than electric energy production, then naturally the question arises about the mystery of the liberalised electric energy market that does not remunerate the production factors in relation to their real contribution to achieving and supplying the production. It is obvious that, in this respect, a series of regulations and adjustments are required for the market functioning norms and for the competition that would not disadvantage direct producers and final consumers to the undeserved benefit of energy trades that have fabulous earnings. In a final analysis, by contribution, the energy producers and consumers representing supply and demand are more important than traders.

The issue we pose is not the one of the very high profit rates of those that trade electric energy, but of increasing the profitability of producers, without which the energy traders would remain without job, and the exporters' competitiveness "at large", who are compelled to buy energy at high prices, diminishing thus their profitability and external competitive capacity.

On the other hand, the increase in prices and tariffs for energy, as a result of achieving some exaggerated profits, in particular during a period of crisis, of the ones trading this product/service of major (even vital) importance for all sectors of national economy, represents a factor of inflationary pressure, the justified price increase and, consequently, increase in the operational costs with fuel and energy to intermediary and final consumers. The diminution of the general competitiveness of exported products and services by increasing prices due to energy trades has unfavourable effects on sustainable increase of the entire national economy.

Romania is placed among the countries with high energo-intensivity of the gross domestic product, about 4 to 6 times higher as compared with the levels recorded for this indicator in developed countries due to the impact of traders, next to the one of the relatively low-tech level and losses from distribution and consumption.

Undoubtedly, the reasons of this macroeconomic efficiency gap of energy between Romania and developed countries is due also to the interposing of an entire chain of traders, who, in many cases, have a minor contribution or even inexistent with respect to real value adding to the products and services supplied by the direct producer, but who, by more or less honest means, manage to impose a nominal value added in their own interest, to the detriment of efficiency and competitiveness of an entire chain of producers and exporters. The analyses about the magnitude of this unfavourable impact and taking measures for its diminution in the future are approaches in favour of increasing the competitiveness of production for export.

The increase in energy prices, in particular due to the impact of conjecture non-transparency of traders eager to achieve unjustified high earnings does not represent a factor for rendering the national economy efficient, induced by the "fake energy market liberalisation" but, rather, a factor of inefficiency and general inhibition of Romanian exports' competitiveness that these exports might have. To an equal extent, it is necessary that intermediaries also solve the issue of energy losses on the transport network which, as known, have a high share in total consumption stock that, in a final analysis, are financially born by the final consumer.

## 5.2. Transfer prices and Romanian exports' competitiveness

Another major issue of Romanian exports' competitiveness, from the strategic viewpoint, that decision-makers at micro- and macroeconomic levels must be concerned about in particular, is aimed at the so-called "transfer prices" or "intra-company" prices practiced between the subsidiaries of transnational companies and parent companies. These prices might disfavour domestic producers and foreign currency cashing at national level in Romania. It is about the practice of some TNC subsidiaries with headquarters in Romania, most frequently with integrally foreign capital that make export to the parent companies of Romanian products at a relatively low price. In their turn, after some minor presentation improvements (package or brand) these products are sold on the domestic market or re-exported at prices several times higher. The question arises to what extent the respective price increase on final distribution of the product is justified, as long as the highest contribution to its realisation is that of the material consumptions and labour in Romania. On the other hand, parent company sells to the subsidiary products and goods at a very high price, exceeding much more the normal market price level. The regulation of such an issue regarding the distribution of incomes should be realised not only by the former internal or external markets but also by the authorities at national and community level.

As of November 2008, the dossier of transfer prices represents a compulsory requirement of fiscal authorities of Romania within the (background and partial) controls, in particular for those effected in view of VAT reimbursement. For a good period of time, the Romanian fiscal authorities, but also multinational companies having subsidiaries with their activities in our country have ignored the issue of transfer prices. By the dossier of transfer prices, the TNC subsidiaries are compelled to justify the compliance with the market value and the principle of "arm's length" of the prices, which is practiced within multinational intra-corporation transactions and their subsidiaries. The current Order of the Minister of Economy and Finance (no. 222/2008) provides for a series of information about the group and taxpayers, including the computation method of transfer prices (the method of comparing uncontrolled prices, the cost-plus method, the method of the reselling price, other methods acknowledged by the guidelines regarding transfer prices). The dossier of transfer prices aims at both VAT reimbursement and avoiding double-taxation. The rigorous enforcement of legal losses regarding transfer prices is very often made difficult by postponements and compliance failure with their drawing-up and revision procedures on a regular basis. On the other hand, the dossier of transfer prices represents an instrument for counter-acting the tendency of some TNC subsidiaries “not to have profit” in Romania (!)

We shall exemplify the issue of transfer prices with the help of a trade industry case in Romania – Romanian Lafarge (company controlled by the French company Lafarge) and Carpatcement Holding have succeeded during the crisis years 2009-2010 to make a profit margin of 30% under the circumstances in which the mother company did have a profit margin of only 8%[1]. The profit margin recorded by Holcim Romania was only 4% as a result of the company’s investments depreciation and of diminishing sales in the last years.

By the by, also 4% is not a negligible margin especially in crisis conditions. The total profits that the three large cement producers recorded in Romania in 2010 were about 120 million Euros-according to the calculations based on the data from the Ministry of Public Finances. It should be mentioned that cement companies, with foreign capital in Romania have contributed with a share of 10% to the total profit of the parent-company, even though their business turnover did not represent but 1-2% from the total turnover of the respective parent company.

Table 14. Turnover and profit margins in 2010 of the three cement companies

| Index of Romania | Carpatcement | Lafarge | Holcim |
|---|---|---|---|
| Turnover (mill.euro) | 188.5 | 183.3 | 196.4 |
| Net profit (mill.euro) | 56.3 | 55.6 | 2.9 |
| Profit margin (%) | 30 | 33 | 4 |
| Profit margin at group level | 4.3 | 6.9 | 7.5 |

Source: Balance data, Ministry of Public Finances, 2010.

The experts of the three cement companies with foreign capital consider that the profit margins were not very high because the cement industry belongs to the heavy industry, with complex equipment that need replacement, repair and modernisation all the time. Under the conditions of the world level crisis, such profit margins by no means can be regarded as modest; the more so as cement

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[1] *The reason why foreign capital operates in Romania is obvious! It is not about - firstly – the interests of the Romanian economy, but about the interests of Lafarge, so that we should show realism regarding the interests of the national economy and the ones of the foreign capital.*

production in 2012 might record an increase of 10% while in 2010 it registered a decrease of 10% as compared to 2009, which equalled to a diminution of the production volume to 6.85 mill. tons against 7.8 million tons, respectively.

The representative of Carpatcement Holding mentioned that the profit margin of 32% means in reality an operational margin of 20%, and part of the company incomes are achieved from other activities, such as asset sales. For Carpatcement, the profit on 2010 shall not be distributed as dividends, but used to ensure cash flows and financing investments.

Lafarge Cement, which achieves a bit over 1% from the turnover of the Lafarge group, contributed with a share of 5% to the total net profit of the mother company, which shows the fact that the Romanian economy provides for a relatively profitable environment for the company. The net profit in 2010 was almost equal to the one of 2008, under the conditions in which the turnover of Lafarge Ciment was 370 million Euros, twice as high in 2008 against 2010.

The investments for the years 2011 and 2021 amount to about 90 million Euros and aim to increase of the production capacities, which shall constitute a reason for profit growth in the future.

The situation of Holcim Romania is somewhat different, that is the profit margin is 4% in 2010, against 7.5% at the level of the entire group. The decrease in the profit is due to a diminution in production and demand in the context of the world economic and financial crisis and of the demand on the constructions market.

According to World Investment Report 2011, the average earnings of TNC (net earnings) on total sales for the period 2005-2011 was: 4.1% in 2005; 5.0% in 2006; 7% in 2007; 5.5% in 2008; 3.4% in 2009; 6.8% in 2010. In Romania, the average profitability rate of TNC subsidiaries was higher than the average levels in the world.

## 6. Some final remarks

The present research attempted to highlight some of the ways by which national policies and the ones of TNC can ensure efficiency and competitiveness increase in Romania, among which we mention:

- Changing FDI companies in a growth factor for the national economy sustainability, meaning increasing their contribution to the surplus stock of the trade balance of Romania, in order to shift from the current situation when the imports of FDI agents are by far higher than their exports to a situation of trade balance surplus;

- Better tuning between industrial policies and the ones in the FDI field for promoting efficient re-industrialisation of the national economy having as priority objective the development of some branches of the manufacturing industry based on intra-branch specialisation and on insertion within international value chains into segments with high value added, that are science and high-tech-intensive;

  The priorities to be supported by public policies in the field of attracting FDI refer to the following: creating and strengthening the knowledge-based society; developing an environmentally sustainable economy; promoting environment - friendly industries, and responsible from the social, cultural and spiritual viewpoint; directing more investments towards promoting Romanian brands and trademarks.

- Taking into account the relatively volatile character of FDI by stimulating some investments in industries with domestic capital on greenfield or infant industries types;
- Stimulating FDI for higher increases of reinvested earnings as against the repatriated ones and amplifying the positive effects of FDI within inter- and intra-sectoral upstream and downstream relations of the Romanian economy;
- Diminution the unfavourable role of some intermediaries by increasing export and domestic market sale prices in the competitiveness of export prices and consumption prices for intermediary and final goods;
- Improving the public-private partnership schemes, considering that world experience shows the potential of some majority or minority state-owned companies and TNC that operate under conditions of efficiency for all involved stakeholders;
- Legal determination and regulation of some transfer prices within the relationships between the patern company and their subsidiaries in Romania, which would not disadvantage the cashing from subsidiaries' exports, the profit and VAT.

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