

THE REGIONAL DISPARITIES FOREIGN DIRECT INVESTMENT IN ROMANIA

IBOLYA KURKÓ¹

ABSTRACT - After the collapse of its economic system, Romania entered a new economic, social, and political period named transition. The transition from a planned economy to a market oriented one, the opening of the borders, the consolidation of the political and juridical systems led to the appearance of foreign direct investment as well as to its permanent increase. Against the frame of internal changes, the Romanian foreign policy evolved in a new direction marked by the country joining NATO and its accession to the European Union. After 1989, economic, political, and demographical changes influenced all Romanian settlements. Still, these changes had selective effects pushing some counties to progress and other to decline. Foreign investment concentrated especially in the areas where the infrastructure already built, the development level, and accessibility were more significant as well as the area where the local factors were more interested in making changes. This contributed to regional disparities as investment focused especially in Bucharest and in the North-West and West Development Regions. In our study we present the evolution of foreign direct investment in Romania in the last years and the disparities between regions and counties.

Key words: foreign direct investment, disparities, subscribed social capital.

We identified foreign direct investment as the engine of Romanian development because it contributed to the country's economic progress after the industrial reorganisation crisis of the 1990s. Foreign direct investment also led to the creation of new jobs and thus diminished or eliminated the unemployment that Romania had to cope with because of massive redundancies.

After the collapse of the communist regime, the main cause of foreign direct investment in Romania was the advantages resulting from privatisation: budget increase, debt phasing for the largest state factories, the modernisation of industrial centres. All these made privatisation more attractive. Privatisation had to cope with big difficulties reflected in the ups and downs of foreign direct investment at the beginning of the 1990s, as well as in the frequent government changes. The beginning of Romanian privatisation was August 1990 when the State Property Fund was set up. The main feature of privatisation was the lack of information that led to a large number of entrepreneurs starting selective privatisation. Major changes characterised the 1995-1996 period, when mass privatisation took place, but this had no significant results as the owner – of most factories – was still the state and, thus, the process of restructuring the privatised firms was slowed down.

In 1996 the Ciorbea administration had two main objectives: industrial reorganisation and privatisation. Its results were modest. Its programme package also focused on shutting down the main industrial centres and banks that were permanently losing capital, on diminishing the employees' number by 5%, as well as on new laws accelerating privatisation mainly through significant foreign investment and by stabilising physicality. Implementing this programme package was difficult also because of the quantitative aspect of the objectives and the possibility of putting them into practice. Their results led to economic decline, radical decrease of living standards, unemployment rate increase, and decrease of the population's purchase power. Nevertheless, during this period (1997-1998), the Parliament passed several laws that made foreign direct investment easier (the transition from coupons system to money payment in the case of the State Property Fund. Out of these laws, the Governmental Decision no. 31 on 1997 on foreign direct investment and the Governmental Decision no. 24 on 1998 on disadvantaged areas were particularly significant. Their main purpose was the stimulation of foreign investors with several facilities such as: no TVA for importing industrial machines, technological equipment, installations, equipment, agricultural machines, raw material, and consumables that were not produced or were deficient in Romania under the condition of obtaining the exoneration certificate. These facilities were enforced if the foreign investors' contribution reached 20% or a minimum value of 350,000 USD of the subscribed social capital for setting up a commercial society. During the first two years, these firms paid only 15% in tax and if the foreign partner invested over 5 million dollars, then they benefited from more facilities.

¹ "Babeş-Bolyai" University, Ph.D. Candidate, Department of Human Geography, Faculty of Geography, Clinicilor Street, no. 5-7, 400006, Cluj-Napoca, Romania. E-mail: ibicik@yahoo.com

Thus, at the beginning of 1990, because of political interests, privatisation was disorganised, but during the second part of the same decade, the juridical context was reorganised and restrictions were fewer. Foreign investors got the chance to invest their money in the Romanian economy.

The advantages that Romania offered to foreign investors were:

- 21 million domestic consumers, the second largest market in Central Europe
- Naval advantages from the Black Sea to the North Sea
- Qualified and cheap labour force
- Large quantities of raw material and a high touristic potential
- Legislation for market economy.

ROMANIA'S ECONOMIC EVOLUTION AND FOREIGN DIRECT INVESTMENT IN THE LAST YEARS

The annual increase of regional GDP was affected, at the middle of the 1990s, by economic recession. The reorganisation of the state-owned enterprises was very slow, the acceleration of privatisation was delayed, export decreased, while the deficit of foreign payments and of the budget increased. Inflation was very high (151% in 1997), industrial reorganisation and shutting down the big industrial centres led not only to a higher unemployment rate but also to increase of the population working in agriculture in order to survive during transition. At the end of the 1990s, the stabilisation of the macro-economic processes, foreign direct investment increase and the lower levels of inflation (down to 16%) led to a higher GDP. In 2001 GDP rose by 5.7%. This increase was mainly because of growth of the economic activities in commerce and construction industry. Thus, regional disparities of the most important development indices increased, too.

Table.1 *The macro-economic indicators of development*

Development regions	GDP/capita (country average=100)		Unemployment rate		IMM/capita		ISD/capita	
	1998	2002	1998	2003	1998	2003	1998	2003
North-East	74.1	68.5	47.7	8.4	68.7	68.3	15.3	14.9
South-East	97.6	82.2	37.3	7.4	102.5	101.5	42.7	74.6
South	83.7	76.6	26.1	7.6	78.1	74.4	65.5	69.9
South-West	87.3	76.5	36.4	8.6	92.3	105.0	11.9	34.1
West	101.9	103.7	28.5	6.6	86.7	95.9	99.1	98.6
North-West	92.1	90.0	26.2	5.2	107.1	107.8	5.8	55.6
Centre	104.7	103.4	23.1	8.0	99.2	102.7	87.7	57.8
Bucharest	158.6	199.2	8.9	3.0	195.3	197.1	598.3	503.5

Source: Anuarul statistic al României (The Statistical Annual of Romania), INS, Bucharest, 1998, 2002

At the beginning of the 1990s, foreign direct investment was 100 million Euros and at the end of the 2005, it was approximately 5 thousand million Euros. This was also the consequence of a better business environment, of a foreign partners' positive attitude towards Romania as well as of a single taxation quota. The 5 thousand million Euros did not include the privatisation of Petrom or the 2006 statistics which included the privatisation of the Romanian Commercial Bank. The privatisation of the Electrica commercial society and of the C.E.C (the Loan Bank) in the following years could increase the foreign direct investment index. If we take into account the fifteen years after the collapse of the communist regime, the cumulative direct investment value reached 12.6 thousand million Euros. Thus, if Romania was among the last countries according to the foreign direct investment value, among the seven states of South-East Europe it was the highest in the top. Out of the total investment in this region, Romania and Bulgaria represented 71% (e.g. in 2004, in Bulgaria, investment reached approximately 2.4 thousand million USD). Croatia had 1 thousand million USD. In Serbia and Montenegro investment reached 966 million USD and investment decreased both in number and percentage in comparison with 2003. In Bosnia-Herzegovina and Albania investment did not reach 500 thousand million USD. But the lowest value was in Macedonia where, at the end of 2004, it hardly exceeded 150 thousand million USD.

THE REGIONAL DISPARITIES FOREIGN DIRECT INVESTMENT IN ROMANIA

The setting up of businesses and the value of the subscribed social capital had large oscillations in the last fifteen years. At the beginning of the 1990s, modest capital commercial societies were set up, especially in the retail sector. The mass privatisation programme and the consolidation of laws for the encouragement of foreign investors led to significant results.

Since 1995, after minimum values, the numerical value of investment has increased. This was reflected both in the number of newly-set up commercial societies and in the value increase of the subscribed social capital. Most of these commercial societies were set up in 1992 (11,765, which represented 9.9%). The highest increase, according to the subscribed social capital value, was in 1999 (over 726 millions Euros), if we analyse only the last decade of the 20th century. The new millennium brought significant changes such as: the yearly numerical increase of businesses and of the subscribed social capital (e.g. a record foreign investment in 2005 – 5.19 thousand million Euros). At the end of the 1990s the number of big and medium-sized investors increased. During this process, besides legislative factors, an important role was the fact that these companies were no longer able to maintain their economic position on EU territory and, consequently, they tended to win the eastern markets. The western markets were full, competition was harsh, positions already occupied could be bettered only with big effort, while East Europe was characterised by the opposite situation (Sej Gábor, 2004).

In 2005, Austria was the main investor due to the privatisation of most (61.88) of the Romanian Commercial Bank. Erste Bank won auction with 3.75 thousand million Euros. In the hierarchy of the states, according to foreign participation to the subscribed social capital, Austria was on top, followed by Holland with 2 thousand million Euros with capital growth in the pharmaceuticals industry (A&D Pharma Holding - 300 millions Euros), in telecommunication (UPC Romania – 80.4 million Euros), in finance and banking (ABN Amro Bank Romania – 29.1 million Euros), Germany with approximately 1 thousand million Euros, the largest investment in retail commerce (Kaufland Romania – 91.1 million Euros), followed by Greece, Italy, and Turkey. In 2005, the most important component of the direct foreign investment in Romania was the “reinvested profit” (1,764 thousand million Euros that was 33.9% of the total foreign direct investment), followed by the “participants to capital” (1,760 thousand billion Euros that was 33.8% of the total foreign direct investment) and the “other capital” component that was loans from the mother firm to the affiliated structures in Romania (1,673 thousand million Euros that was 32.2% of the total foreign direct investment) (Source: report on the activity of the Romanian Agency for Foreign Investment, 2005).

The attractiveness of Romania as a destination country for foreign investors was obvious also if we take into account the 11,719 newly-registered businesses with foreign participation to the social capital in 2005. In comparison to 2004, we noticed an increase by 13.9% of the foreign partners’ interest to set up businesses in Romania.

From 1991 to December 2005, the structure of foreign direct investment on activity fields according to the subscribed social capital value with foreign participation had industry in the top with 52%, followed by professional services – 21.7%, commerce – 14.9%, transports – 7.1%, tourism – 1.8%, constructions – 1.7%, and agriculture – 0.9%.

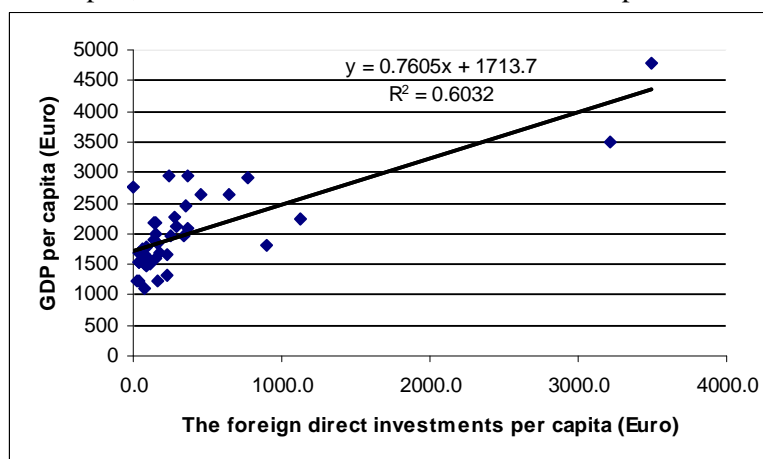
The orientation of the foreign direct investment to industry was a result of the advantages that Romania offered in this sector: lower cost of land than in other countries of the region, better or less developed infrastructure, cheap and qualified labour force, production capacity, and tradition. In addition, Romania offered several other facilities, such as: no customs taxes for raw materials and for semi-products, and transportation costs for products between the mother company and the affiliated structures were lower. A field where investment was very low was agriculture as a result of the disorganisation of the property relationships and of the general situation in agriculture.

The businesses with foreign participation to their capital and to their subscribed social capital had a differentiated evolution in the development regions of Romania. They focused mainly in Bucharest, in the West and North-West regions, and the value of their subscribed social capital was higher in the South and the South-East regions, besides Bucharest.

INTERREGIONAL DISPARITIES

In Romania, the ratio between the foreign direct investment and the regional GDP was obvious. Consequently, the interregional disparities between the Romanian more developed regions, such as Bucharest, Transylvania, Moldavia, Muntenia, and Oltenia, exhibited a strong correlation (0.603) between

the foreign direct investment/capita and the regional GDP. According to both indices, the following counties, besides Bucharest, were in a good situation: Argeş, Timiș, Arad, Cluj, Constanța, Bacău, and Bihor, where both the GDP/capita and the foreign direct investment/capita exceeded significantly the Romanian average. In contrast to this situation, several counties in Moldova (Botoșani, Vrancea, Suceava, and Vaslui) and in Oltenia (Gorj, Dolj, and Mehedinți), as well as in Sălaj County in Transylvania, foreign direct investment hardly reached 100 Euros/capita, which was ten times less than the developed counties.



Source: the author, according to the data from the Romanian Agency for Foreign Investment

Figure 1. Correlation between FDI/capita and GDP/capita in 2004

Up to the end of 2005, out of the 12.8 thousand million Euros subscribed social capital more than half (7.6 thousand million Euros) was in the Bucharest-Ilfov region, besides the South and the South-East regions. The last in this hierarchy, as in the case of other development indices, were the South-West region, Oltenia, and Moldova. The territorial distribution of businesses showed high disparities. Between 1990-2005, they set up 119,120 commercial societies, out of which 64,507 were in the Bucharest-Ilfov region and several other thousands in the West, the North-West, and Central regions. The last in this hierarchy were the South-West, the South, and the North-East regions.

We chose the Dual index in order to illustrate and analyse the inter-county disparities and the micro-regional distribution. This index was more appropriate for analysing duality and, in our case, it expressed the relation between the developed and the “lagging behind” areas. The higher the value of the Dual index, the bigger the disparity between these two groups. Thus, in case of the subscribed social capital, the Dual index showed a significant difference in 2004 between eastern and western Romania as in some counties, such as Arad, Cluj, Hunedoara, and Timiș, foreign direct investment exceeded 500-1,500 million Euros. In 2006, in Bucharest, investment exceeded one thousand million Euros as a result of the Petrom privatisation. In Arad County, the Japanese company – Yazaki – invested in the auto-tyre factory over 100 million Euros. In Olt County, the Dutch company – Pirelli Tyres – invested over 2 thousand million Euros. In contrast to this evolution, in some counties (Bacău, Tulcea, Ialomița, and Vrancea) investment did not reach 100 thousand Euros.

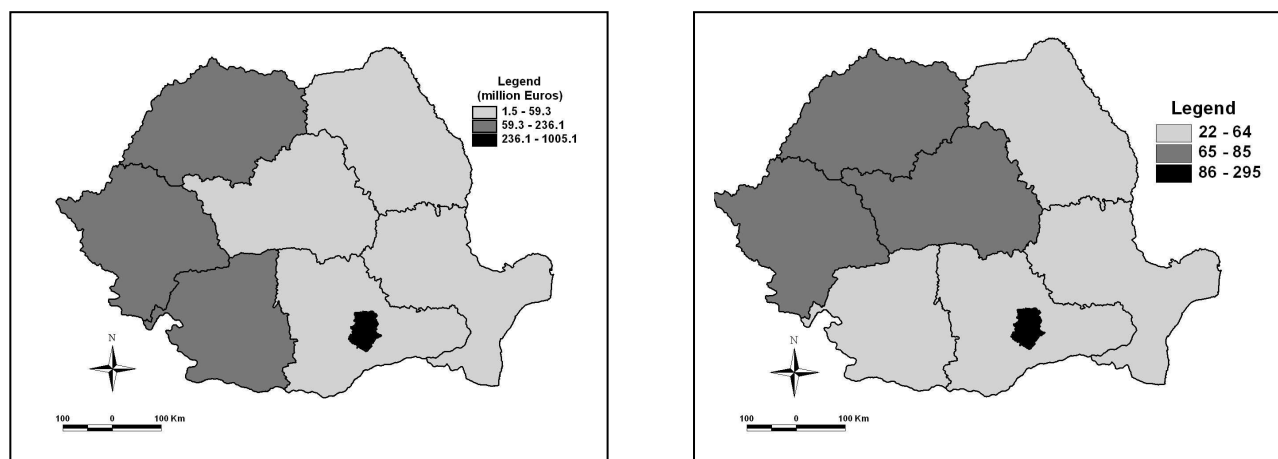
Table 2. The subscribed social capital and the numerical evolution of businesses according to several indices

	<i>Value of the subscribed capital</i>				
	2001	2002	2003	2004	2005
Dual-index	72.73	143.30	67.28	199.85	67.72
St.dev	402,565.5	444,238.1	268,365.3	1,411,966	468,002.6
Rel. dispersion	323.59	400.26	329.40	383.92	419.74
	<i>Number of businesses</i>				
	2001	2002	2003	2004	2005
Dual-index	9.50	11.01	6.16	10.26	9.02
St.dev	20.27	40.20	24.88	59.01	58.70
Rel. dispersion	60.19	71.79	63.42	64.94	81.99

Source: the author, according to the data from the Romanian Agency for Foreign Investment

THE REGIONAL DISPARITIES FOREIGN DIRECT INVESTMENT IN ROMANIA

In 2002 13 times more businesses were set up in Bucharest (295) than in South-West Oltenia region (22) or in the West region, where the ration was 1:4 (85 commercial societies). The differences between the evolution of the capital volume and the numerical evolution of companies was caused by the setting up of DAEWOO Automobiles, the biggest mixed company in Romania, in Craiova, in 1994. This diminished the disparity between the west and the south of Romania and increase the disparity between the south and the east only as far as the capital volume was concerned (Guran Nica, Liliana, 2002).



Source: the author, according to the data from the Romanian Agency for Foreign Investment
Figure 2. *Subscribed social capital distribution (2004) and the distribution of businesses (2002)*

We could notice an obvious polarisation between the West, the Centre, and the North-West regions, besides Bucharest, where investment concentration was visible, and the underdeveloped counties from the North-East, the South, and the South-West regions that were avoided by investors.

Another index that we used for quantifying the extant inequalities between the counties categories according to the foreign direct investment was the Herfindahl index. In 2005 it had higher values. 2003 was the beginning of its significant increase signalling the increase of disparities in the concentration of investment. The South region was in an advantageous position, but with significant differences between its northern and its southern area. The industry of the three northern counties of this region attracted most of the foreign direct investment. The foreign capital concentrated in the city of Ploiești which has a favourable geographic position and a strong relational capacity. The most important firms were: Coca-Cola, Efes Pilsen, Unilever, Timken, and Lukoil. All these were located in Ploiești and produce both for the regional and the national market (Guran Nica, Liliana, 2002).

Table 3. *Subscribed social capital evolution and the numeric evolution of businesses according to the Hirschman-Herfindahl index*

	<i>Hirschman-Herfindahl index</i>				
	2001	2002	2003	2004	2005
The value of subscribed capital	0.27	0.40	0.28	0.37	0.43
The number of businesses	0.12	0.20	0.10	0.16	0.17

Source: the author, according to the data from the Romanian Agency for Foreign Investment

Table 3 drew our attention to the year 2005, the highest value of the concentration index, which can be explained by the privatisation of the Romanian Commercial Bank won by Erste Bank of Austria. This sum concentrated especially in the Bucharest region. Beside this, important capital increase was due to foreign investors, such as: A&D Pharma Holding (pharmaceutical industry) - 300 million Euros, Kaufland Romania (in retail commerce) – 91.1 million Euros, UPC Romania (cable TV services, Internet, and cable telephone communication) – 80.4 million Euros – all these being concentrated in the capital of Romania. The increase of the concentration index since 2003 has marked the disparities in the foreign investment

distribution in the more developed counties, such as Timiș, Cluj, Bihor, Arad, Sibiu, Brașov, and Constanța, besides the Bucharest-Ilfov area.

CONCLUSIONS

We noticed that foreign direct investment was characterised by disparities in Romania during the period under investigation. Foreign direct investment avoided the less developed areas, such as those in the south-east. The causes of this situation in were low developed infrastructure and people's low purchasing capacity. The capital of Romania was the investors' favourite target as more than 50% of foreign investment and over 20% of the small and medium-sized firms were set up there. The new businesses were characteristic of Bucharest, followed by the West, the North-West, and the Centre region, while the higher amounts of subscribed social capital was a feature of the less developed regions, characterised by late industrialisation. A cause could be the partial or the total lack of industrial infrastructure so that many companies started their activities from the scratch. Another cause was the bad management in the rural area. Out of the 13,000 rural settlements, almost 8,000 coped with big difficulties in getting the drinking water supply and the sewage networks. In addition, part of the infrastructure was destroyed by the great floods of the last 50 years. This led to using the 70 millions Euros from the European Union, for infrastructure and agriculture development, in order to diminish these bad effects.

According to a World Bank analysis – taking into account the labour force costs, the industrial parks, the infrastructure, the proximity to the European Union, the housing costs, the corruption, and the criminality rate – they identified the most significant commercial possibilities in the west and in the centre of Romania. Thus, on the first place was the Caraș-Severin County where the labour force was highly qualified and cheap and also there was a high unemployment rate. Cluj County was on the second place in the World Bank hierarchy due to its developed infrastructure and proximity to the E.U., while Brașov County was on the third place due to its large and qualified labour force and to its developing infrastructure. The last places belonged to Bacău, Vrancea, and Satu-Mare, although a remarkable development has been a characteristic of these counties lately. According to certain specialists, Romania's strong points were those areas where most of the labour force was used (the clothing and footwear industry, and the furniture industry). Other industrial branches were those where raw material was needed, such as in the metallurgic industry and the wood industry.

The distribution of foreign direct investment is characterised by still increasing significant regional disparities as investments focus mostly in Bucharest, in the West, in the North-West, and in the Centre Region. We consider that the decrease of disparities is possible by developing the territorial infrastructure and if the Romanian Government focuses on the development of the less developed areas.

REFERENCES

- ANGHEL, I. (2002), *Investițiile străine directe, modernizarea și înzestrarea cu factori*, Centrul de Informare și Documentare Economică, București.
- GURAN NICA, LILIANA (2002), *Investiții străine directe și dezvoltarea sistemului de așezări din România*, Editura Tehnică, București.
- IOAN, DENUȚA (1998), *Investiții străine directe: în țările est și central europene*, Editura Economică, București.
- MOISE, ELENA (2005), *Investiții străine directe*, Editura Victor, București.
- POPESCU, RODICA (2003): *Disparități regionale în dezvoltarea economico-socială a României*, Editura Meteor Press, București.
- RÉTI, T. (2003- Co-ordinator), *Közleledő régiók a Kárpát medencében. Dél-Szlovákia, Erdély és a Vajdaság gazdasági átalakulása*, Európai Összehasonlító Kisebbségkutatások Közalapítvány, Budapest.
- SEJ, G. (2004), *A magyar tőkebefektetések regionális egyenlőtlenségei Romániában*, In: Regionális értékelő és kvantitatív analízisek, No.2, Editura Macropolis, Budapest, pp.41-77.
- *** Anuarul statistic al României 1998-2004, INS, București.

www.arisinvest.ro

www.bnr.ro