

ANALYSIS OF FOREIGN DIRECT INVESTMENTS TYPES IN ROMANIA, PERIOD 2011-2015

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Abstract: The paper "Foreign Direct Investments by type in Romania, period 2011-2015" aims to study the main types of Foreign direct investments, differentiated on the foreign participation flow, fueling the company's capital: greenfield, mergers&acquisitions, company development, restructuring, in the analyzed period.

Key words: foreign direct investment, company development, greenfield, restructuring, mergers and acquisition

INTRODUCTION

In the economic literature, foreign direct investments (FDI) have been examined under different aspects that relates to their impact on the hosting countries, to advantages, costs, effects and observed or obscure variables, etc. In the global economy, FDIs are considered an important and specific factor for economic growth, and the flow volatility has always a negative effect. In their efforts to adhere to EU, the ex-planned economies from Central and East Europe understood that their transition to a free market economy might be eased significantly by FDIs (being highly important elements of economic integration, growth acceleration, innovation and economic restructuring). A particular accent is made on factors as location in attracting foreign investors and as packages that are stimulating FDIs, specially created and satisfying investor's needs, for encouraging the foreign companies to invest in their countries. There are also benefits that foreign investments, moreover the direct one's, can bring to the hosting countries: social one: new working places, a higher level of people's income, a modern social infrastructure (especially in health, education and culture), development of services and information sectors, that is generating the long life learning process [1].

The foreign direct investment company is a resident company, with or without juridical personality, in which a non-resident investor owns at least 10% of votes or subscribed social capital, respectively from the starting/working capital in the case of companies without juridical personality (branches). Owning at least 10% from votes or subscribed capital, as described above, is essential for establishing the foreign direct investment relation [2].

In the contemporary economy, commerce and production spreaded without precedent at global level, thus foreign direct investments have been widespread within the funding and implementation of economic policies. We talk about granting by law the possibility of an individual to invest on other territory than his residency. Developed countries don't have a legislation related to foreign direct investments. In the EU case the possibility to do a foreign direct investment is included in the freedom of capital movement.

MATERIALS AND METHOD

This paper has been developed based on the reports published by the Romanian National Bank related to foreign direct investments in Romania in the period 2011-2015.

In this working paper we presented the main types of foreign direct investments in Romania in the period 2011-2015, by referring to development regions in which foreign direct investments are concentrated and at their repartition by main types of economic activities.

RESEARCH RESULTS

The participation to capital flows in the foreign direct investments companies is differentiated in the following categories: greenfield, mergers and acquisitions and company development. Greenfield investments are associated with founding companies by or together with foreign investors, more precise, investments starting from zero. Mergers and acquisitions are referring to partial or total taking over of companies by foreign investors, from residents. Company development refers to increases of capital share of foreign investors inside a FDI company [7].

Between 2011 and 2012 the flow of capital participation in FDI companies has been differentiated in greenfield, mergers and acquisitions and company development. From the data presented in table 1, we can notice that in 2011 the greenfield investments registered a very low level, of only 27 Million Euros, representing only 0.7% of the total capital participations in the FDI companies (as we can observe from table 2), in the same situation being also the investments from mergers and acquisitions category with 86 Million Euros (2.1% from participations). The biggest share in the capital participation flow in 2011 has been represented by company development with a value of 3.896 Million Euros, which equates to 97.2% of total participations (table 2).

Table 1.
Types of foreign direct investments in the period 2011-2015

Million Euro

Investment type \ Year	2011	2012	2013	2014	2015
Greenfield	27	18	112	77	96
Mergers and acquisitions	86	-5	152	196	-5
Company development	3896	2663	1391	2438	1742
Company restructuring	-	-	1109	1511	1252
<i>Capital participation flow in FDI companies</i>	4009	2676	2764	4222	3085

Source: Own manipulation from data reflected in the Foreign Direct Investment in Romania reports, year 2011, 2012, 2013, 2014, 2015, p. 12-13, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, [accessed on 2.03. 2017].

From a repartition perspective, by main types of economic activities, foreign direct investments in greenfield companies have been directed mainly to manufacturing industry (28.6% from FDI balance in greenfield companies). Other branches in which this type of investments have a significant share are: commerce (19.6%), constructions and real estate transactions (14.7%), financial intermediation and insurance activities (14.2%) [6].

Table 2.

Types of foreign direct investments in the period 2011-2015

(%)

Year Investment type	2011	2012	2013	2014	2015
Greenfield	0,7	0,7	4,1	1,8	3,1
Mergers and acquisitions	2,1	-0,2	5,5	4,6	-0,2
Company development	97,2	99,5	50,3	35,79	56,5
Company restructuring	-	-	40,1	57,7	40,6

Source: Own manipulation from data reflected in the Foreign Direct Investment in Romania reports, year 2011, 2012, 2013, 2014, 2015, p. 12-13, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, [accessed on 2.03. 2017].

In 2012 the capital participation flow to FDI companies registered 2.676 Million Euros (Table 1), a significant reduction compared with the previous year (Figure 1). The level of greenfield investments have been well reduced, reaching only 18 Million Euros in 2012, and the mergers and acquisitions investments had a negative impact of 5 Million Euros. The predominant share in the capital participation flow has been represented by company development type of investments, with a value of 2.663 Million Euros, respectively 99.5% from total participations (Table 2).

From a reparation perspective, by main types of economic activities, foreign direct investments in greenfield companies have been directed mainly to manufacturing industry (30.4% from FDI balance in greenfield companies). Other branches in which this type of investments have a significant share are: commerce (20%), constructions and real estate transactions (14%), financial intermediation and insurance activities (12.8%) [5].

In 2013 the capital participation flow to FDI companies registered 2.764 Million Euros (Table 1), being slightly higher than previous year value (Figure 1). The level of greenfield investments and the mergers and acquisitions investments had registered a reduced level, 112 Million Euros, respectively 152 Million Euros. The predominant share in the capital participation flow has been represented by company development type of investments, with a value of 1.391 Million Euros, respectively 50.3% from total participations and by company restructuring with 1.109 Million Euros, representing 40.1% from participations (Table 2).

From a reparation perspective, by main types of economic activities, foreign direct investments in greenfield companies have been directed mainly to manufacturing industry (33.6% from FDI balance in greenfield companies). Other branches in which this type of investments have a significant share are: commerce (18%), constructions and real estate transactions (12.9%), financial intermediation and insurance activities (11.2%) [4].

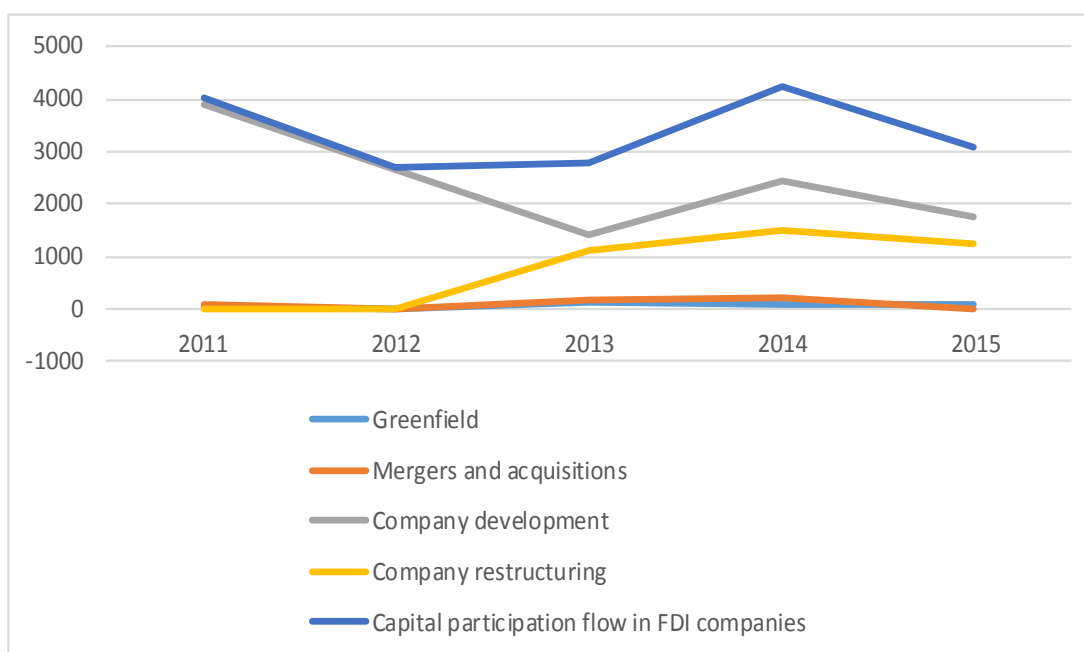


Figure 1. Foreign direct investment types evolution and capital participation flows in FDI companies in Romania, period 2011-2015

Source: Own manipulation & Table 1 data

In 2014 the capital participation flow to FDI companies registered 4.222 Million Euros, having a significant increase comparing with 2013, surpassing even the high level registered in 2011 (Figure 1). The level of greenfield investments and the mergers and acquisitions investments had registered a reduced level, 77 Million Euros, respectively 196 Million Euros. The predominant share in the capital participation flow has been represented by company development type of investments, with a value of 1.511 Million Euros, respectively 36% from total participations and by company restructuring with 2.438 Million Euros, representing 58% from participations (Table 2). The foreign direct investments balance of greenfield companies, in a total amount of 32527 Million Euros, were representing 54% from the total FDI balance.

From a reparation perspective, by main types of economic activities, foreign direct investments in greenfield companies have been directed mainly to manufacturing industry (31.4% from FDI balance in greenfield companies). Other branches in which this type of investments have a significant share are: commerce (17.7%), constructions and real estate transactions (13%), financial intermediation and insurance activities (10.5%) [3].

In 2015 the capital participation flow to FDI companies registered 3.805 Million Euros, slightly decreasing comparing with 2014, but surpassing the levels registered in 2012 and 2013 (Figure 1). The level of greenfield investments and the mergers and acquisitions investments followed the last year's trend, registering a reduced level. Therefore, greenfield investments contributed to the total flow with only 96 Million Euros, while the mergers and acquisitions conducted to a marginal reduction of the investment flow (-5 Million Euros).

The predominant share in the capital participation flow has been represented by company development type of investments, with a value of 1.742 Million Euros, respectively 56% from total participations and by company restructuring with 1.252 Million Euros, representing 41% from participations (Table 2). The foreign direct investments balance of greenfield companies, in a total amount of 36484 Million Euros, were representing 56.6% from the total FDI balance.

From a reparation perspective, by main types of economic activities, foreign direct investments in greenfield companies have been directed mainly to manufacturing industry (30.3% from FDI balance in greenfield companies). Other branches in which this type of investments have a significant share are: commerce (16.6%), constructions and real estate transactions (15.7%), financial intermediation and insurance activities (9.8%) [2].

CONCLUSIONS

In 2011 the biggest part of foreign direct investments in greenfield companies concentrated, as FDI aggregate, in the region Bucharest-Ilfov (60.5% from FDI balance in greenfield companies); followed by Center Region with 11% and West (9.3%) and South-Muntenia (6.3%).

Also in 2012 the biggest part of foreign direct investments in greenfield companies concentrated again in Bucharest-Ilfov (58% from FDI balance in greenfield companies); followed by Center Region with 11.6% and West (10.1%) and South-Muntenia (6.5%).

The year 2013 did not bring any changes concerning the ranking of greenfield foreign direct investments, similarly as the aggregate FDIs. We can notice a slight modification of % values, the ranking being: region Bucharest-Ilfov (56.5% from FDI balance in greenfield companies); followed by Center Region with 13.3% and West (9.9%) and South-Muntenia (8.3%).

Bucharest-Ilfov region maintained the first position also in 2014 with approximately the same percentage (56.2 %), followed by Center Region with 13.3% and West (9.2%) and South-Muntenia with 6.6% from the greenfield foreign direct investments balance.

In 2015 the biggest share of foreign direct investments in greenfield companies are concentrated, as FDI aggregate, in the region Bucharest-Ilfov (56% from FDI balance in greenfield companies); followed by Center Region with 11.9% and West (10.7%) and South-Muntenia (6.2%). We can easily notice that the preferred region for foreign direct investments in greenfield companies was Bucharest-Ilfov, which kept the first place in the period 2011-2015.

Structurally, during the crisis we noticed a move of foreign investments in areas such as construction and real estate transactions in the industrial sector and the energy. Depending on the location of the registered office of enterprises which have received foreign direct investment, investment orientation was mainly directed to Bucharest-Ilfov region (with about 60% of the total balance), the value of FDI sites reaching here 35.6 billion euros. Second place was occupied by the country's central zone, with 9.7% of total foreign direct investment, followed closely by the West region with 7.7%. In the year 2014, greenfield investments and mergers and acquisitions had a very low level, for 77 million euros, 196 million euros respectively. The predominant share in the flow of capital participation in 2014 is represented by company restructuring with a value of 2.4 Billion Euros, respectively 58% from participations and by company development with 1.5 Billion Euros, representing 36% of participations. [8]

Form a repartition perspective, by economic activity type, the foreign direct investments in greenfield companies have been directed mainly on the manufacturing industry. Other branches in which these types of investments had a significant share are: commerce, constructions and real estate transactions, and professional scientific, technical and administrative activities, as well as support services.

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