

ESSENTIALITIES CONCERNING THE TYPES OF FOREIGN DIRECT INVESTMENTS IN ROMANIA, PERIOD 2011-2017

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Abstract: The paper "Essentialities concerning the types of foreign direct investments in Romania, period 2011-2017" aims at studying which the main types of foreign direct investments were, differentiated according to the contribution of the flow of foreign equity investments in foreign direct investment companies: greenfield, mergers and acquisitions, company development, company restructurings, in the analysed period.

Key words: *foreign direct investments, company development, greenfield, company restructuring, mergers and acquisitions*

INTRODUCTION

In the specialized literature, foreign direct investments have been examined under various aspects relating to their impact on the countries of origin or hosts, to advantages, costs, effects and observable or obscure variables, etc. In the global economy, foreign direct investments are viewed as an important and specific factor for the economic growth, but while these investments have an expected positive effect on the economic growth, the volatility of foreign direct investment flows has always had a negative effect. In their efforts to join the European Union, countries which formerly had non-market economies in Central and South Eastern Europe have understood that their transition to a market economy can be significantly facilitated by FDI, which are particularly important elements of economic integration, accelerating the growth, innovation and the restructuring of organizations and economies. A particular financial stress is laid on factors such as the place or location in attracting foreign investors and in specially adapted packages meant to stimulate FDI and which meet the needs of investors to encourage foreign companies to invest in their countries. There are also other coexisting benefits that foreign investments, and especially direct ones, can bring, some of which are of a social nature: the creation of jobs, higher income levels, a modern social infrastructure (especially in healthcare, education and culture), the development of the service sector and the information quaternary sector, generating a permanent professional training system or a complex process of lifelong learning. [1]

The foreign direct investment enterprise is a resident enterprise, with or without legal personality, in which a non-resident investor owns at least 10 percent of the voting rights or the subscribed share capital, or of the capital endowment/working capital of enterprises without legal personality (branches). The holding of at least 10 percent of the votes or of the subscribed share capital, respectively of the capital endowment/working capital, is essential in establishing the direct investment relationship. [2]

MATERIALS AND METHOD

This paper has been prepared based on the reports published by the National Bank of Romania on Foreign Direct Investments in Romania in the 2011-2017 period.

In this paper, I presented the main types of foreign direct investments in Romania during the 2011-2017 period, with reference to the development regions in which they are concentrated and also on the distribution on the main economic activities.

RESULTS AND DISCUSSIONS

The flow of equity participations into direct foreign investment enterprises (FDI) is differentiated into greenfield, mergers and acquisitions and company development. Greenfield investments imply the establishment of enterprises by or together with foreign investors, more specifically, investments started from zero. Mergers and acquisitions are the full or partial takeover of businesses by foreign investors from residents. Company development refers to the increase of foreign direct investment capital holdings in a foreign direct investment enterprise. [7]

In 2011 and 2012, the flow of equity investments in FDI enterprises was differentiated into greenfield, mergers and acquisitions and company development. From the data presented in Table 1, it can be seen that in 2011, greenfield investments recorded a very low level of only 27 million EUR representing 0.7% of the capital holdings in FDI enterprises (as can be seen from the data presented in the table 2), investments in the mergers and acquisitions category are in the same situation with 86 million EUR (2.1% of the participations). The largest share in the flow of equity participations in 2011 was represented by the development of companies with a value of 3896 million EUR, respectively 97.2% of the participations (Table 2).

Table 1.
Types of foreign direct investments in the 2011-2017 period

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Year Type of investment	2011	2012	2013	2014	2015	2016	2017
Greenfield	27	18	112	77	96	78	77
Mergers and acquisitions	86	-5	152	196	-5	184	213
Company development	3896	2663	1391	2438	1742	773	787
Company restructuring	-	-	1109	1511	1252	2168	1158
<i>Flows of equity participations in FDI enterprises</i>	4009	2676	2764	4222	3085	3203	2235

Source: Own processing of the data collected from the report Investițiile străine directe în România în anul 2011, 2012, 2013, 2014, 2015, 2016, 2017, (Foreign direct investments in Romania in 2011, 2012, 2013, 2014, 2015, 2016, 2017) pages 12-14, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, [visited on 12.03. 2019].

From the point of view of the distribution of the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards manufacturing (28.6% of the FDI balance in greenfield enterprises). Other sectors where these investments have a significant share are: trade (19.6%), construction and real estate transactions (14.7%), financial intermediation and insurance (14.2%).[6]

In 2012, the flow of equity participations in FDI enterprises amounted to 2676 million EUR (Table 1), a significant reduction compared to the previous year (Figure 1). The level of the greenfield investments was very low, of only 18 million €, in 2012, and the investments in the merger and acquisition had a negative impact of 5 million €. The most significant share of the flow of equity participations was held by company development, with a value of 2663 million euro, or 99.5% of the shares respectively (Table 2).

In 2017, investments in the greenfield and merger and acquisition categories followed the trend in recent years, with a very low level. Thus, greenfield investments

contributed only 77 million EUR to the investment flow in the equity capital of FDI enterprises, and mergers and acquisitions by 213 million EUR. [10]

From the point of view of the breakdown on main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards manufacturing (30.4% of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: trade (20%), construction and real estate transactions (14%), financial intermediation and insurance (12.8%) [5]

Table 2.
Types of foreign direct investments in the 2011-2017 period

Year Type of investments	2011-2017 (%)						
	2011	2012	2013	2014	2015	2016	2017
Greenfield	0.7	0.7	4.1	1.8	3.1	2.4	3.4
Mergers and acquisitions	2.1	-0.2	5.5	4.6	-0.2	5.7	9.5
Company development	97.2	99.5	50.3	35.79	56.5	24.1	35.2
Company restructuring	-	-	40.1	57.7	40.6	67.7	51.8

Source: Own processing of the data collected from the report *Investițiile străine directe în România în anul 2011, 2012, 2013, 2014, 2015, 2016, 2017, (Foreign direct investments in Romania in 2011, 2012, 2013, 2014, 2015, 2016, 2017) pages 12-14, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>, [visited on 12.03. 2019].*

In 2013, the flow of equity participations in FDI enterprises was 2764 million EUR (Table 1), slightly exceeding the value recorded in the previous year (Figure 1). Investments in greenfield and merger and acquisition recorded a low level, 112 and 152 million EUR, respectively. The prevailing share in the flow of equity participations is held by company developments with a value of 1391 million EUR or 50.3% of the participations, respectively, and the company restructuring with 1109 million EUR, representing 40.1% of the participations (Table 2).

From the point of view of the distribution on the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry (33.6% of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: trade (18.2%), construction and real estate transactions (12.9%), financial intermediation and insurance (11.2%). [4]

In 2014, the flow of equity participations in FDI enterprises was 4222 million EUR, rising significantly compared to 2013, even exceeding the high level recorded in 2011. (Figure 1). Greenfield investments and investments in the merger and acquisition category recorded a low level of 77 and 196 million EUR, respectively. The predominant share in the flow of equity participations in 2014 is represented by the company restructuring with a value of 2438 million EUR, i.e. 58% of the participations, and 1511 million EUR in the company development, representing 36% of the participations. The balance of foreign direct investment in greenfield enterprises, amounting to 32527 million EUR, represents 54% of the total FDI balance.

From the point of view of the distribution on the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry (31.4% of the FDI balance in greenfield enterprises). Other sectors where these investments have a significant share are: trade (17.7%), construction and real estate transactions (13%), financial intermediation and insurance (10.5%). [3]

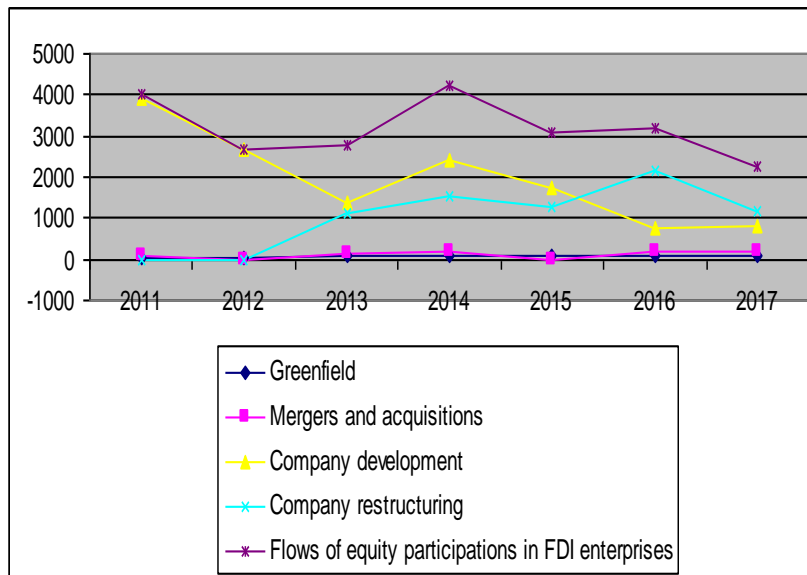


Figure 1. Evolution of types of foreign direct investment and inflows of equity participations into FDI enterprises in Romania, 2011-2017

Source: Made based on the data in Table 1.

In 2017, the flow of equity participations in FDI companies was 2235 million EUR, recording a decrease compared to 2016 and reaching the lowest value in the 2011-2017 period. (Figure 1). The predominant share in the flow of equity participations in 2017 is represented by business restructuring with 1158 million EUR, representing 52% of the participations, and by business developments with 787 million EUR, i.e. 35% of the participations, respectively.

From the point of view of the distribution on the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry (30.9% of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: constructions and real estate transactions (16.5%), trade (15.4%) and professional, scientific, technical and administrative activities and support services (8.4%). [10]

CONCLUSIONS

In 2011, most of the foreign direct investments in greenfield enterprises were focused, as well as the whole of FDI, in the Bucharest-Ilfov area (60.5% of the FDI balance in greenfield enterprises); followed by the Centre area with 11% and the Western (9.3%) and South-Wallachia area (6.3%).

In 2015 as well, most of the foreign direct investments in greenfield enterprises were concentrated in the Bucharest-Ilfov area (56% of the FDI balance in greenfield enterprises), followed by the Centre area (11.9%), the Western area (10.7%) and South-Wallachia area (6.2%).

The biggest part of foreign direct investments in greenfield enterprises in 2017 was concentrated, as a whole, in the Bucharest-Ilfov area (60.1% of the FDI balance in greenfield enterprises); followed by the Centre area with 11.9%, the West area with 10.6% and the Northwest area with 6.3% of the FDI balance in greenfield enterprises.

47It can be noticed that the favourite area of foreign direct investments in greenfield enterprises was Bucharest-Ilfov, which remained the first in 2011-2017.

From the point of view of the distributional on the main economic activities, foreign direct investments in greenfield enterprises were mainly oriented towards the manufacturing industry. Other branches where these investments have a significant share are: trade, construction and real estate transactions and professional, scientific, technical and administrative activities and support services.

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