

ANALYSIS OF FOREIGN DIRECT INVESTMENT'S SUSTAINABILITY IN ROMANIA

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Abstract

The economic integration of Romania into European Union structures and continued globalization has determined significant changes in the economies of different countries. The involvement of foreign firms in the Romanian economy is undoubtedly a strong economic motivation arising from the competitive advantages they have compared with Romanian companies. In the hope of economic revival, the Romanian Government encourages foreign direct investments, recognized that they have a major mobilizing effect on the national economy. But the principles of sustainability is an issue that should be considered, equally, by the Romanian policy makers. Industrial and typology analysis of foreign direct investment in Romania in terms of their sustainability is the purpose of this paper. In relation to the principles of sustainable development, will be taking into account of environmental protection issues, labor involvement and impact on other economic sectors as determinants of foreign direct investment character. If investments such as those performed to obtain green energy (wind, solar, geothermal, etc.) have a evident sustainable connotation, others, such as those made for the extensive use of labor or of some local resources (e.g. wood) does not can classify so easily into either category of sustainability. Furthermore there is also a general perception of negative impact of some investments, even if, obviously, multinational companies make large financial and advertising efforts to demonstrate the opposite (e.g. in extractive industry). A detailed analysis of the effects of these investments may, however, clarify their sustainability.

According to the approaches made, is desired, further, to highlight the sustainable investment proportion and impact on the Romanian economy, given the broad spectrum of effects on economic and social development of Romania.

Key words: sustainable development, transnational companies, foreign direct investment, environmental impact, determinants of FDI.

In the development process, the sustainability is a phenomenon that must be achieved and maintained. The objective of creating sustainable results for today's society and future generations should prevail in any action.

In their development strategies, countries are based on both endogenous processes and their relations with other states. When economies are open to foreign investment flows, it occurs a transfer of funds and also of risks associated with their usage. Areas of high attractiveness for multinational companies are often areas of social, environmental or strategic sensitivity for the receiving countries. One of the determinants of FDI (Foreign Direct Investment) in different countries or regions of the country is the legislative permissiveness of receiving country. These issues occurs in the conditions under which, taking place a complex economic process for removal of natural resources, for ongoing of hazardous economical activities on the environment, or for employment of certain categories of personnel who own specialized or non-specialized labor, there are

long-term external costs that heavily outweigh the benefits of capital investment.

It must be taken into account that the main motivation for transnational companies is to generate wealth to its shareholders. Most investors are not from the country, region or area where the projects are implemented, so that the decision-maker leaves in the background the social responsibilities and the environmental values determinate on the process a pure economic character, focused just on profits. Using the available data for the Romanian economy and by performing a detailed analysis of major projects and companies that have invested in the Romanian economy, we intend to highlight to what extent are accomplished the social and environmental restrictions in Romania and how much the financial and technological support shown by transnational companies generate a real value surplus for the region that hosts the foreign direct investment.

The findings of study are based on the theory of FDI determinants's analysis and the

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studies were milestones in the development of logical analysis and synthesis in the investigations.

Following the made assessments, results that the foreign capital flows have positive effects on the regions where they were made, while the monitoring process takes place with the contribution of population, by the exhibition of property rights and, also, with the contribution of public institutions, by specific regulatory and control levers.

Thus, from the internalisation of social and environmental external costs, the multinational companies are motivated to undertake sustainable activities that can be „a real engine” of progress for the Romanian economy.

MATERIAL AND METHOD

The data and information which formed the basis of the research in order to achieve this paper are represented by the Romanian statistics, available on bibliographic material and on websites of the National Institute of Statistics, National Bank of Romania and Romania Trade and Invest.

The data of these sources were processed and summarized in accordance with the purpose of this study, their origin being evidenced by the specifics bibliographical references.

The scientific method that has been used was the deductive and synthesis analysis, being specific of the research that are based on information taken from the economy. Practical evaluations are supported by the fundamental theories and approaches in the field. The documentary analysis was an important step in finalizing the research and obtaining the study conclusions.

RESULTS AND DISCUSSIONS

The dynamics of the Romanian economy in recent years is mainly based on international relations and on attracting the foreign investors.

In the scientific literature is analyzing the impact of FDI on the economies of countries where they are made. The conclusion is that through them it takes place a more efficient widespread and usage of technology and resources [Borensztein, Gregorio, & Lee, 1998]. Through the position as medium-sized country in Europe, but also as EU member, Romania has enjoyed the attention of

transnational companies from Europe and worldwide.

The key issues of attractiveness are represented by the national and regional sale market, by the existing infrastructure and the potential acquisitions of public and private enterprises, but also by the availability of natural resources such as minerals or agricultural or forest resources.

Under these conditions it is required to take account that the foreign investment projects made in Romania may actually have negative effects. Kevin R. Gray (2002) considers that *"FDI flows can have a serious impact on ecosystems and social development"*.

Some authors consider, relying on their own studies (Harris Gleckman, 1995, p. 94), that, in conditions which the multinational companies would adopt the environmental policies, *"then the following would occur:*

- *at least one quarter of the world's assets would be better managed environmentally;*
- *70 per cent of the products in international trade would be better labeled;*
- *80 per cent of the world's land cultivated for export-oriented crops would use fewer toxic pesticide and more sustainable agricultural policies;*
- *a large share of the world's new technological innovations would be better evaluated for their health-and-safety effects"*.

Today, Romania has an important position in the Central and Eastern Europe in terms of volume of attracted foreign investments. Although the crisis has affected the investing behavior in Europe, Romania continues to be, along with Slovenia, more attractive than other countries in the region. However, in Romania, in FDI recorded a sharp decline since 2009 (tab. 1).

In the first three quarters of 2011, FDI had reached 1,175 billion euro, by 54.1% lower than the same period in 2010. There is however a positive trend in September 2011, with attracted investment of 49 million euro, twice higher than in August of some year. Countries that have invested in Romania are mainly European ones, but there are as well countries from America and Asia with important positions in terms of FDI flows (tab.2).

Foreign direct investments attracted by Romania during 2004-2010

Table 1

- million euro

| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------|------|------|------|------|------|------|------|
| FDI value | 5183 | 5213 | 9056 | 7250 | 9496 | 3490 | 2220 |

Source: National Bank of Romania, Balance of Payment

As can be seen, the countries with the largest investments are those in European Union (Netherlands, Austria, Germany, France, Greece, Italy), that have adopted the European policy on the environment and social responsibility.

Table 2
**The main countries with FDI in Romania
(Dec. 31 - 2010) (distribution by origin country)
- million euro-**

| Country | Value | Percentage in total (%) |
|--------------------------|-------|-------------------------|
| Netherlands | 10903 | 20.7 |
| Austria | 9346 | 17.8 |
| Germany | 6398 | 12.2 |
| France | 4384 | 8.3 |
| Greece | 3016 | 5.7 |
| Italy | 2808 | 5.3 |
| Cyprus | 2550 | 4.9 |
| Switzerland | 2021 | 3.8 |
| United States of America | 1349 | 2.6 |
| Spain | 1064 | 2.0 |
| Luxemburg | 989 | 1.9 |
| Czech Republic | 972 | 1.8 |
| Belgium | 864 | 1.6 |
| Hungary | 717 | 1.4 |
| Great Britain | 627 | 1.2 |
| Turkey | 615 | 1.2 |

Source: National Bank of Romania

The European legislation on environment and sustainable development induces an increased confidence in social and environmental standards applied in countries where companies invest their capital.

A study by Reader's Digest (Kahn, Lostys, 2007), achieved a hierarchy of EU countries plus Norway and Switzerland, in terms of their ecological level through five ecological indicators:

- Environmental Performance Index - EPI - developed by Yale and Columbia Universities;

- Happy Planet Index - HPI - which measures the manner of reflection in a happy life of the used resources of each country;

- Climate Change Performance Index - IPCC - this indicator is based on greenhouse gas emissions, as CO₂ and the efficiency of government policies on climate change;

- Biodiversity and Renewable Energy Systems - RES.

Among the countries that invested in Romania, there are European countries in the top 15. The most "green" are countries such as: Switzerland (2nd), Austria (4th), Germany (7th), France (8th), United Kingdom (11th) and Italy (14th). There are also many other countries that have a large investment in Romania and which are to the bottom of this ranking: Netherlands (19th), Greece (29th), Cyprus (22nd), Spain (16th), Luxembourg (21st), Czech Republic (17th), Belgium (26th), Hungary (20th). Given that Romania has the 18th position of the hierarchy, it can be seen from Table 2 that most of the investments (in terms of their value) come from countries ranked better than Romania. At least from this point of view, and considering that the mass of the "green" value of country is determined by the quality of traders and households activities, we can deduct the positive impact of FDI on the Romanian environment.

The investing areas may have repercussions on the natural resources from Romania. Although there are many companies that have invested in manufacturing or in services area, there are also investors for whom the main motivation of investing in the Romanian economy is the collection and processing of renewable natural resources (wood, climate conditions - wind) or non-renewable (minerals, petroleum) (tab. 3).

Table 3
**Tangible and intangible assets (Dec. 31 - 2010) (distribution by main economical activities)
- million euro-**

| Tangible and intangible assets | Value | % in total |
|--|-------|------------|
| FDI total, of which: | 24309 | 46.2 |
| Industry | 13740 | 26.1 |
| Mining and quarrying | 2066 | 3.9 |
| Manufacturing | 9576 | 18.2 |
| Electricity, gas and water | 2098 | 4.0 |
| Trade | 3394 | 6.5 |
| Construction and real estate | 2367 | 4.5 |
| Information and communication | 1533 | 2.9 |
| Financial intermediation and insurance | 1428 | 2.7 |
| Transport | 536 | 1.0 |
| Professional, scientific, technical and administrative activities and support services | 492 | 0.9 |
| Agriculture, forestry and fishing | 457 | 0.9 |
| Hotels and restaurants | 263 | 0.5 |
| Other activities | 99 | 0.2 |

Source: National Bank of Romania

In the total investments in Romania, the highest value is the investment in the industry with a share of 46.02%. The level of investment in the mining and quarrying industry is only 3.9%. This low level can have a double meaning: a low sampling of natural resources (positive aspect); minimum investment in efficient operating characterized by minimal environmental impact (negative aspect). Since the relatively small number of units in which it was invested for the natural resources's exploitation, and the predominant European origin of investing companies, we consider that in this field the

investment fulfill the requirements of a sustainable exploitation (tab. 3, 4).

An important impact on the environment's and social relations's quality has also the nature of the projects implemented on nationally. Considering the "most successful" projects, developed through FDI in Romania, *Romania Trade and Invest* has revealed a number of 39 projects. The most important issues that formed the basis for this classification were: the investment volume and investment period, the intervention area and the number of new jobs, created during project implementation (tab. 4).

Table 4

List of successful investments with foreign participation in capital from Romania, supported by Romania Trade and Invest (October 2011)

| No. crt. | Company | Country | Location | Industrial sector | Investment value (million euro) | No. jobs | Implementation period of investment |
|----------|----------------------------|----------|----------------------|------------------------|---------------------------------|----------|-------------------------------------|
| 1 | RENAULT TECHNOLOGIE | France | Titu-DB | Automotive | 450 | 3000 | 2007-2010 |
| 2 | GRAELLS & LLONCH | Spain | Prejmer Brasov | Industrial park | 300 | 1000 | 2005-2007 |
| 3 | RENAULT MECHANIQUE | France | Pitesti | Automotive | 226 | 650 | 2005-2008 |
| 4 | EGGER | Austria | Suceava | Woodworking | 210 | 700 | 2005-2008 |
| 5 | PIRELLI | Italy | Slatina | Automotive | 190 | 1250 | 2006-2007 |
| 6 | INA SCHAEFFLER | Germany | Brasov | Machinery construction | 180 | 1200 | 2004-2006 |
| 7 | HOLZINDUSTRIE SCHWEIGHOFER | Austria | Suceava | Woodworking | 170 | 500 | 2005-2008 |
| 8 | SAINT-GOBAIN | France | Calarasi | Construction materials | 120 | 200 | 2004-2007 |
| 9 | CALSONIC KANSEI | Japan | Ploiesti | Automotive | 120 | 1050 | 2006 - 2008 |
| 10 | DELPHI DIESEL | USA | Iasi | Automotive | 140 | 1800 | 2007-2011 |
| 11 | LUFKIN INDUSTRIES | USA | Ploiesti | Machinery construction | 100 | 300 | 2010-2012 |
| 12 | PRIO FOODS (MARTIFER) | Portugal | Lehliu Gara Calarasi | Bio-Diesel | 93 | 120 | 2009-2011 |
| 13 | PROCTER & GAMBLE | USA | Ploiesti | FMCG Marketing | 70 | 300 | 2009-2010 |
| 14 | HONEYWELL FRICTION | USA | Ploiesti | Automotive | 58,7 | 300 | 2011-2013 |
| 15 | OLYMPUS DAIRY | Greece | Halchiu, Brasov | Food | 55 | 80 | 2008-2011 |

Source: *Romania Trade and Invest*

This data highlights the large number of projects developed by foreign companies in the automotive field. The main project, and also the largest investor in Romania, is represented by the Renault Group (Technology and Mechanique), with a total investment of about 476 million Euro. The Renault's environmental policy is manifested by the production and commercialization of Dacia cars on the Romanian market. In line with the government program of fleet renewal in Romania, the offer of new cars with engines adequate to European standards led at quitting to a significant number of old cars with high pollution level and outdated technology.

On the other hand, Renault company proves to have a solid long-term strategy for creating new cars at low prices which caused a strong expansion of Dacia's market in Europe and the worldwide. By its own policy, the Renault company focuses on production technology, by improving and investing in production lines from the Pitesti unit. In social terms, the Renault project directly employed about 3,650 people, solving successfully the problem of unemployment of an important share of workforce in the region.

Between the successful foreign investment projects stands the large number of companies operating in "Automotive", namely 16 of the 39 projects analyzed (in the top 15 are found 6

projects). This is due to the entry into the Romanian economy such of European investment dedicated to Eastern Europe or Asia, as well as certain investments from Asia and America with a market in the European Union.

Woodworking projects have a less environmental component because they contribute at the reducing of areas under forests in Romania. However, given that in Romania there are many entrepreneurs who exploit forests and export the timber in raw form, the appearance of certain projects developed by European companies (Holzindustrie Schweighofer and Egger - Austria) can have a positive impact on the economy and environment of the area, due to the rational and superior recovery of wood resources. On the own presentation Website, the Holzindustrie Schweighofer company declares that *"The Private Foundation of Schweighofer family actively supports certain charitable ongoing projects. In addition, we also have own initiatives in environmental protection and in social area"*.

There are also certain investment projects aimed on creating energy, by using alternative sources such as: wind, solar and biogas. Thus, the projects of companies as Airliquid - France and Prio Foods - Portugal aimed on decreasing of pollution and conventional energy consumption in Romania by implementing some renewable energy equipment.

CONCLUSIONS

Since the economies tend to become more globalized, the capital movements have an extensive dynamic.

Romania has experienced in the pre-crisis period a strong inflow of foreign investment, which has placed it on top in terms of attractiveness on Eastern European markets. "The doors opening" for such investments facilitated the entry in Romania of large foreign capital. If issues such as resources, labor or local markets are key factors in attracting the foreign investment and the economic repercussions are the most important, should not lose sight concerning the social and environmental impact on the zones where these investment are implemented.

The foreign investment projects in Romania have the following three main areas of positive impact on the economic, natural and social environment.

It determines the propagation of innovations, technology and management methods in the Romanian economy by printing its development according to the global economy.

It uses Romanian and imported natural resources, by highly valuing and determining a big value-added which allows the development of certain sustainable processes of resources exploitation.

It leads to the usage of specialized labor in Romania and determines an improvement of living conditions, by considering the new technologies applied to the workplace, the level of remuneration and the facilities provided by the foreign investors in Romania.

The permanent monitoring of the actions of foreign companies in Romania and the regulation on aspects as the relations between economy - company - environment, are the basis for the sustainability of FDI projects.

As the WWF Report - August 1999, entitled "Foreign Direct Investment and the Environment" (Mabey, McNally, 1999), *"Environmental sustainability can only be achieved inside a broader system of economic governance and respects and enhances basic human and workers rights, and promote good market governance"*.

The main directions on which the Romanian Government should increase its attention are: The technology used for sampling the resources and industrial processing thereof; The relations between investing companies and other partners in Romania; The relations between employers and employees to comply with human dignity and integrity; The strategic level of foreign companies investing in Romania in order to ensure safety and long-term country's development (investment in food, transport and information, energy resources).

Thus, these investments not only minimize their impact on the environment in Romania, but may even contribute to the diffusion of sustainable practices in the Romanian economy.

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