

IS THE FRENCH CAPITAL A MAJOR PLAYER IN THE POST-COMMUNIST ROMANIA'S DEVELOPMENT AND MODERNIZATION?

Elena Rusu

PhD Student, "Babeş-Bolyai" University of Cluj-Napoca

Abstract: Romania's return to democracy in December 1989 represented also the return to a market economy, but more than that, it meant an acute need of the state to develop and modernize in order to bridge the gaps existing in relation to the Western states. In this context, the legislative changes have been made mandatory for the market economy's function. Therefore, the first part of this article focuses on identifying the legal forms under which foreign capital can activate in Romania. The aim of this initiative is to develop a picture of the French capital in Romania, with examples and graphics made based on the size of companies or areas of their activity. A major concern of this paper is the identification of the main contributions of the French capital to the development and modernization of Romania in the period under review, adding their consequences on the economic system to the current research field.

Key-words: market economy, development, modernization, French companies, legal forms of companies

Argument

Direct investments involve lasting investment relationships between entities resident and non-resident entities that typically involves by investors of significant management influence in companies in which they have invested. Components of foreign direct investment (FDI) are: capital stakes of non-resident investors which are holding at least 10 percent of the subscribed share capital of some resident

companies, reinvested by them, as well as tools like loans between investors or a group of which they are part of it and businesses in which they invested¹.

Identification of legal forms under which the French capital can activate in Romania, as stipulated by Law no. 31/1990, represents the first part of this paper. This study seeks to answer the question: *is the French capital a major player in the post-communist Romania's modernization and development?* To answer this question, I focus on identifying the main contributions and consequence of French capital on the Romanian market and its evolution for the period under review. For this purpose, I submit the situation of the evolution of the DFI sold at national level, by region of development, in order to identify and get a clearer perspective on the relationship between.

This work is a comparative study done on two levels: comparing the level of the same indicator over several years, and comparing various indicators in order to identify the elements capable of influencing their trajectory. Thus, in terms of methodology, I depict a joint comparative study based on qualitative and comparative methods. In this work, qualitative analysis approach certainly excels by qualitative interpretation of quantitative data in order to exemplify and provide more precise explanations. In addition, it attempts to present the main legal forms through which foreign capital can operate in Romania. The methods used in this paper refer to the analysis of documents.

Moreover, this research presents a study case on French capital path during the period under review, post-communist Romania, through concrete examples of investment actors. Rather than document analysis and case study, quantitative research is using data and information with statistical character. Hence, in this work, the same indicators are measured in different periods, but also correlated.

Comparative analysis brings added value because the results obtained test the initial assumptions, and it provides a broader context to the research. Namely, it identifies the main forms of foreign capital in Romania, and also it compares various indicators (the number of companies with foreign shareholder, the amount of foreign capital and the GDP during the period investigated) in order to identify the influence between these indicators and the economic development of the state.

Legal forms of foreign direct investments in Romania

Since the 1990s, the economic relations between Paris and Bucharest were always at a good level and flourishing, as a result France ranks among the largest trading partners of Romania. Moreover, France

¹ National Bank of Romania, *Direct investment – directional principe*, available at [<http://www.bnr.ro/Investitii-directe---principiul-direc%C8%9Bional-12332.aspx>], last access: 30 Mars 2016.

is one of the main investors in Romania, alongside with the Netherlands, Germany, Austria, Cyprus and Italy. Foreign direct investments incentives in Romanian economy may take from a legal point of view the following forms:

- Setting up a representative office (RO);
- Establishment of a new society, a branch or entering existing private companies such as industrial and productions enterprises;
- Participation in privatization of enterprises (Dacia Company).

Foreign companies may establish in Romania, according to the Romanian law, subsidiaries and branches, agencies or other secondary offices, and as long as this right complies with their organic status (example of retailers)². Foreign investor means an individual or legal person with residence or office registered outside Romania, who is a partner or shareholder in a company in Romania. On the other hand, foreign ownership refers to the complete or partially ownership of a business in Romania by individuals who are not Romanian citizens, or by companies whose headquarters are not that in host country.

Therefore, under Emergency Ordinance no. 92/1997 on stimulation of foreign direct investment, FDI involves shares or participation in companies in any of the legal forms stipulated by the law, acquisition of shares or social parts of a company, excluding portfolio investment, as well as establishment or expansion in Romania of a foreign company branch, through:

- Financial contribution, in national currency or in convertible currency;
- Contribution in real and / or movable estates, tangible and intangible assets;
- Participation to an enterprise asset growth, by any legal funding³.

A Representative Office is a more advantageous initiative for companies involved in commercial activities than in industrial activities which require setting up joint or limited liability enterprises. A Representative Office may only engage in activities within its registered business scope and according to Romanian legal regulations.⁴ A Representation Office is simply an intermediary agent between the mother-company and its external business partners. However, this secondary establishment cannot engage

² Official Journal of Romania, *Law on trading companies No. 31/1990 - Article 44.*

³ Official Journal of Romania, *Emergency Ordinance no. 92/1997 on stimulation of foreign direct investment*, law in force since 30 December 1997.

⁴ Official Journal of Romania, *Law No. 122/1990 about the authorization and operation of foreign companies and economic organizations representative offices in Romania - Article 8*, law in force since 25 April 1990.

in commercial revenue-generating activities, its primary role being the promotion of commercial relations between the parent company and Romania.

In addition to the Representative Offices, the subsidiary constitutes a way of expanding the mother-company for national or international objectives. A subsidiary enjoys legal personality⁵ and it is established in one of the forms under the Romanian law: general partnership, limited partnership, joint-stock company, limited partnership by shares and Limited Liability Company⁶. The subsidiary is an independent company which is subject to the national law of the parent company who founded it.

Similar to subsidiaries, branches are secondary center of the parent company, without legal personality, and before their activity starts, they have to be recorded at the trade register of the county where they will carry out their activity. The legal status of the branch applies to any other secondary office (agency, working points, etc.) which are mentioned only in the commercial registry of the parent company.

The past few years of the post-communist period have shown foreign investors preference for the branch as a type of investment because it enables sustainable business conduct. According to Article 2 of Law no. 31/1990 on companies, as last published in the Official Gazette of Romania in 2015, and as already mentioned above, companies in Romania can be set up, operate, dissolved and liquidated under one of the following forms: general partnership, limited partnership, joint-stock company, limited partnership by shares and limited liability company. In practice, after identifying the legal form of a significant number of foreign companies, it can be seen that foreign investors prefer the branch as a form of investment under the form of either a limited liability company or joint stock company.

Joint Stock Company requires at least two shareholders and a registered capital of a minimum of 20 000 EUR or the equivalent of 90 000 RON. The minimum share capital subscribed by each shareholder at the very moment of setting-up the company cannot be less than 30% and it has to be paid at the registration. The other 70% must be allocated in the following months from the registration. In general, all joint stock companies can be organised either under an unitary system (a single management body composed of both executive and non-executive directors) or a dualistic systems (executive board and supervisory board). In addition, the General Meeting of Shareholders appoints at least three auditors charged⁷ with oversight of management's activities⁷.

⁵ Official Journal of Romania, *Law on trading companies No. 31/1990 - Article 42.*

⁶ Official Journal of Romania, *Law on trading companies No. 31/1990 - Article 2.*

⁷ La Chambre de Commerce, d'Industrie et d'Agriculture Française en Roumanie, *Annuaire des Membres II. Juin 2015 – 2016, La création d'une société en Roumanie: La société par actions*, Bucharest, 2015, p. 38.

For all foreign investors interested to open a limited liability company in Romania it is important to know that it can be established by maximum 50 associates and the registered capital cannot be less than 200 RON which currently amounts to less than 45 EUR. The registered share capital of a limited liability company is usually split into social shares paid. A Limited Liability Company may be ruled by one or more managers and setting up a Board of Directors is not binding. The supervision of management's activities is done either by the associates/censors (compulsory for limited liability companies with more than 15 associates) or by financial auditors⁸.

As it can be seen from the chart below, in a top of the first five investor countries, Germany has set up the most of foreign companies in Romania from a numerical perspective and Netherlands the fewest. Thus, Germany has set up 20 642 companies, France – 8 007 companies, Austria – 6 865 companies, Cyprus – 5 597 companies and Netherlands – 4 615 companies⁹.

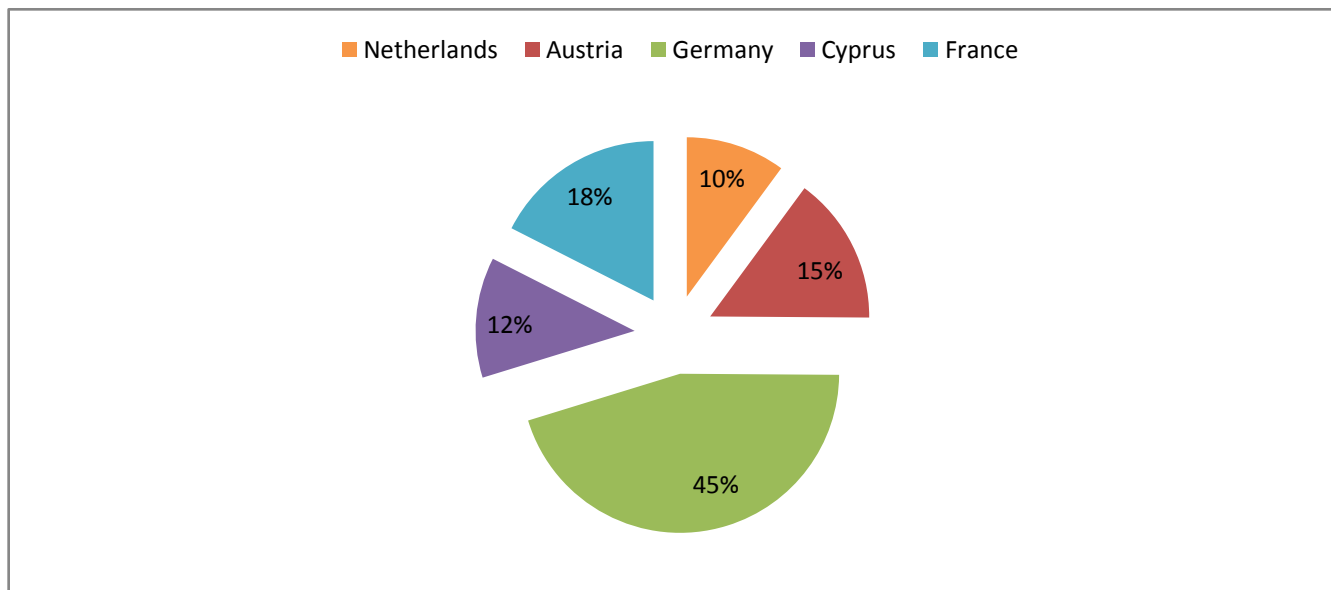


Figure 1. The number of companies with foreign capital: 1991 – 2014

Own processing after data provided by www.onrc.ro

⁸ La Chambre de Commerce, d'Industrie et d'Agriculture Française en Roumanie, Annuaire des Membres II. Juin 2015 – 2016, *La création d'une société en Roumanie: La société à responsabilité limitée*, Bucharest, 2015, p. 38.

⁹ National Trade Register Office, *Societăți cu participare străină la capital. Sinteză statistică a datelor din Registrul Central al Comerțului la 31 decembrie 2015*, No. 211, p. 26.

On the other hand, the chart below shows that this does not guarantee the same ranking in the case of the subscribed foreign capital value. Thus, by the amount of subscribed capital, Netherlands invested 31.746.968 lei, Austria – 18.199.036 lei, Germany - 14.477.470 lei, Cyprus – 13.869.008 lei and France – 9.587.127 lei.

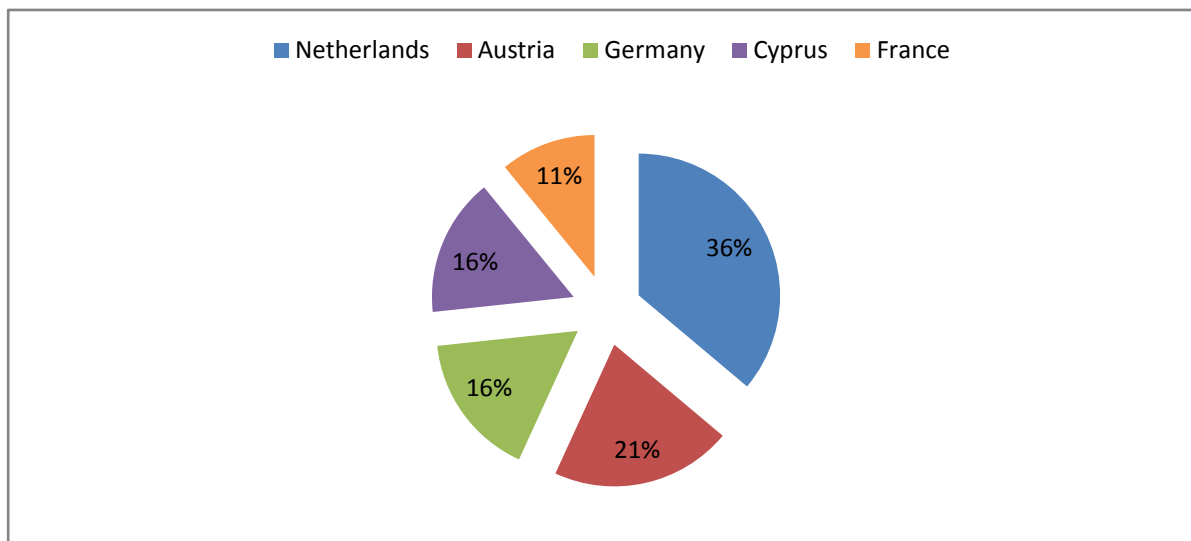


Figure 2. Subscribed foreign capital value – 1991 – 2014

Own processing after data provided by www.onrc.ro

Romania offers a very positive environment in terms of freedom, economic stability and taxation (a flat tax of 16%). Therefore, increasing the number of investors in our country in a context of international competition between state actors is also dependent upon such factors. As a result, the French capital has maintained a constant position throughout the post-communist Romania and succeeded to develop long term investments within the country. Although, France is not in top-three foreign investors in Romania, the French capital had a major impact in developing businesses such as Dacia Pitesti car factory, Orange - mobile operator, Lafarge in the building sector, BRD - major player in the banking sector, Danone – which is representative for the food industry and Carrefour in the trade sector.

When a foreign company wants to expand its business within a country where it already carries out some activity, it needs to take into account not only its own market strategy, but also contextual factors such as stability and economic growth of the chosen country. Therefore, foreign direct investments are strongly influenced by politic, economic and social development of the host country. To exemplify,

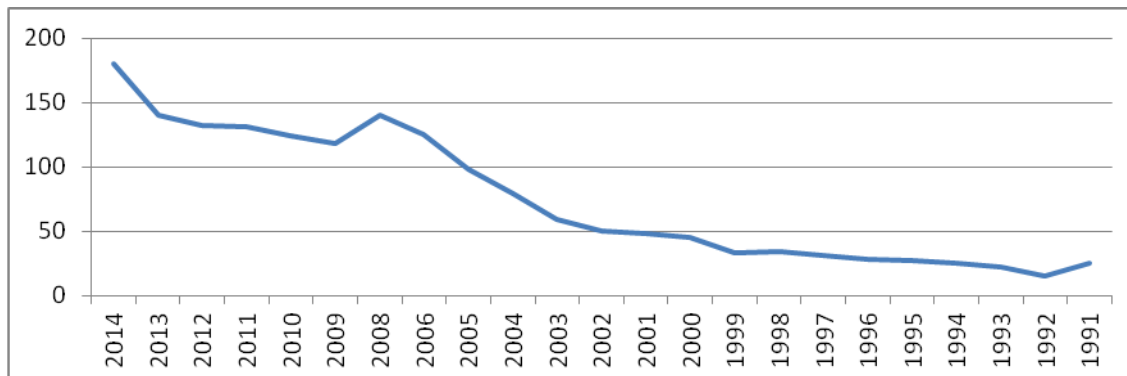
Romania have received the lowest levels of foreign direct investments in the first decade after the collapse of communism.

Influences of foreign direct investments on Romania's economic development

In which ways French capital influenced Romania's economic development after the return to democracy? To answer this question, I analyze the correlation between French capital volume during post-communist Romania and gross domestic product, because fluctuations in gross domestic product are a natural outcome of the foreign direct investments flux during a specific time. Gross domestic product is an aggregate measure of total economic production for a country, and it represents the market value of all goods and services produced by the economy during the period measured¹⁰.

A country with a high level of welfare and with a favorable investment climate will be a constant attraction for foreign investors. Thus, the literature suggests that there is a likely simultaneity of bi-directional relationship between a prosperous economy with a high GDP and a significant number of foreign capital investments, which boost economy through FDI but also promote sustainable development.

Figure 3. Gross Domestic Product (Billion EUR)



Own processing after data provided by www.insse.ro

Advanced technology and foreign investors increase overall labor productivity. Hence, FDI can affect the upgrading of existing jobs, the creation of new ones in the sector invested or in related sectors meaningful for the ultimate purpose of investment. GDP growth is highly influenced by exports

¹⁰ Official definition from National Institute of Statistics.

increment. Taking into account that foreign investments are seeking to maximize profits through exports, their growth is beneficial for the foreign capital – GDP equation. Thus, starting from a brief analysis of indicators such as increased employment, technological progress, export growth and labor productivity growth, I conclude that standard of living increases with GDP growth, largely boosted by the volume of investments. In short, it answers to our questions related to the contribution of FDI, namely French FDI to Romania's economic development.

However, foreign direct investment may also generate negative effects for the host country, among which can be mentioned: increase in imports (imported technologies and material), technological unemployment caused by technological change which put pressure on the government's finances. Nevertheless the negative effects, FDI brings progress and prosperity to host countries, which ultimately results in higher living standards for those countries' citizens.

According to data presented in this paper it results that FDI flows exert a significant influence on the growth rate of GDP per capita. The changing dynamic of investment markets have determined foreign investors to maximize profits and to outsource their business in order to take advantage of lower corporate tax rates from other countries. Thus, they get to sell at the same price but with lower production costs, resulting in higher returns which stand in GDP growth in the host country.

Conclusions

Regardless the destination of French capital, Greenfield investments, acquisitions or capital increase, it has targeted all the sectors of the Romanian economy. The key sectors attracting French foreign investments include: motor industry, telecommunications, trade, agriculture and food, building materials, finance or energy. From the data analyzed in this paper it results that French FDI have a significant impact on economic growth namely GDP growth in Romania. It also underlines a functional relationship between foreign direct investment and gross domestic product of Romania, in terms of capital attractiveness by a resilient economy linked with long-run economic performance.

In conclusion, economic and legislative condition creates important prerequisites for the attraction of foreign investments which sustain growth and development in Romania post-communist. However, FDI effects on host country economic growth differ from one country to another due to different economic, political and social contexts, but also due to particular form and volume of foreign capital flows. Without

doubts, French capital contribution to the development of post-communist Romania is significant and directly proportional with GDP growth and higher standard of living.

Bibliography

La Chambre de Commerce, d'Industrie et d'Agriculture Française en Roumanie, Annuaire des Membres II. Juin 2015 – 2016, *La création d'une société en Roumanie: La société par actions*, Bucharest, 2015.

La Chambre de Commerce, d'Industrie et d'Agriculture Française en Roumanie, Annuaire des Membres II. Juin 2015 – 2016, *La création d'une société en Roumanie: La société à responsabilité limitée*, Bucharest, 2015.

National Bank of Romania, *Direct investment – directional principe*, available at [<http://www.bnr.ro/Investitii-directe---principiul-direc%C8%9Bional-12332.aspx>].

National Trade Register Office, *Societăți cu participare străină la capital. Sintează statistică a datelor din Registrul Central al Comerțului la 31 decembrie 2015, No. 211*.

National Institute of Statistics, available at [www.insse.ro].

National Trade Register Office, available at [www.onrc.ro].

Official Journal of Romania, *Emergency Ordinance no. 92/1997 about stimulation of foreign direct investment*.

Official Journal of Romania, *Law on trading companies No. 31/1990 - Article 2*.

Official Journal of Romania, *Law on trading companies No. 31/1990 - Article 42*.

Official Journal of Romania, *Law on trading companies No. 31/1990 - Article 44*.

Official Journal of Romania, *Law No. 122/1990 about the authorization and operation of foreign companies and economic organizations representative offices in Romania - Article 8*.