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# FOREIGN DIRECT INVESTMENTS IN ROMANIAN AGRIFOOD SECTOR

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*Abstract: The process of deeper globalization of the economies has led to a significant increase of the Foreign Direct Investments flows, making changes in the positions and financial transactions registered as foreign direct investor's flows. The advantages of the host country for Foreign Direct Investments are tied by the economic growth, employment, resources allocation optimization, technology transfer acceleration and trade transactions increasing. The inflows of Foreign Direct Investments are analyzed by several components such as: equity capital, reinvested profit, intra-company loans; by economic sector, by country of origin. Overall, the capital inflows are increasing in all economic sectors, including agriculture but not as much as desired. This is the case of Romania where the inflows of foreign direct capital represents a small share of total despite of the economic potential offered by this activity.*

*Keywords: Foreign Direct Investments, agrifood, economic development, technology transfer, employment.*

**Introduction**

The economic literature is defining Foreign Direct Investments, generally, as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one country, in an enterprise resident in an economy other than of the foreign investors [4].

Foreign Direct Investments has three components: equity capital, reinvested earning, intra-company loans.

**Data and method**

The statistics of UNCTAD database shows that the total inward flow of the Foreign Direct Investments in the world expressed in current prices and exchange rates increased from 627 USD billion in the year 2000 to USD 1,9 trillion in the year 2007, with a sharp decline in the crisis period, but started to increase in 2010 reaching USD 1,2 trillion, as reported in 2012.

The share of the Foreign Direct Investments inflows in developing and transition countries revealed an increase from 18 % in 2000 to 46 % in 2010. Developing countries from Asia registered the highest share, followed by the countries from the African continent and Latin America. Also, the share of total Foreign Direct Investment outflow of developing

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countries has increased from 8 % in 2000 to 25 % in 2010 and for transition countries from 1 % in 2002 to 5 % in 2010.

In agriculture we can speak of an estimated inward of Foreign Direct Investment stock on global level of over 4 times increasing in developed countries and over 6 times in developing countries for the period of the first decade of the XXI century. On the other hand, the reverse flow, meaning the Foreign Direct Investments stock in food and beverages has increased of over 6 times in developed countries and with the same rate in developing countries. The world inward of Foreign Direct Investment flows in agriculture were bellow USD one billion per year between 1989 and 1991, but increasing of about three times per year in the period of 2005-2007 registering for about 1% of total world inflows of Foreign Direct Investments, reaching in 2008 of about USD 5 billion. The total amount of Foreign Direct Investments in the sector of food and beverages has increased from USD 5 billion in 1991 to USD 85 billion in the year of 2008. Nevertheless, inflows to Asia, Oceania, Latin America and The Caribbean and transition economies from Europe has increased, Africa registered a slightly decrease.

If we take into account the share of agriculture on national level in total inward Foreign Direct Investments flows of selected developing countries, in the period 2005-2007, is less than 1% for 17 countries (including Romania), 1 to 2 % for another 7 countries, and relatively significant (6 to 15 %) for another 8 countries.

If we take into account the different level of the value chain, then developing countries registered less inflows of Foreign Direct Investments in food processing than developed countries. It means that the main share of higher added value created in this economic sector, is still produced in developed countries.

Findings based on the financial times Foreign Direct Investments database [Lowder and Carisma 2011; 34,35] shows that Foreign Direct Investments projects on primary agriculture in the sector of alternative and renewable energy is more higher and has strongly increased from USD 7,9 billion in 2003 to USD 90,7 billion in 2008, and declined to USD 42 billion in 2010. In the same time, the food and tobacco sectors received USD 1,4 billion in 2003, increasing to 1,6 billion in 2010. The beverages sector registered an amount of USD 0,6 billion in 2003 and USD 0,5 billion in 2010.

For staple crops the flow of Foreign Direct Investments is usually low, but high in cash crops. Transnational corporations are controlling large parts of the value chain for some commodities. So, Foreign Direct Investments in agriculture may vary by products and geographical regions. The data show that South Americans countries receive Foreign Direct Investments for wheat, rice, sugar cane, fruits flowers, soybeans, meat and poultry. The Foreign direct Investments for Central America has been targeted towards sugar cane and cotton, for East Africa towards floriculture. South Asia has received inflows of investments for large production of wheat and rice, while other Asian regions have received Foreign Direct Investments for cash crops, meat and poultry production. Transition economies mainly attracted investments flows for dairy products.

As for Romania, data collected from statistic survey indicate a net Foreign Direct Investments flow for EUR 2,138 million out of which foreign direct investor’s stakes worth

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EUR 795 million (about 37 % of net Foreign Direct Investments flow). Also, we can add net credit of direct investment enterprises from foreign direct investors, intra-group included, reaching EUR 1,343 million, which accounted for 62,8 % of net Foreign Direct Investments flow.

The share of equity capital in Foreign Direct Investments enterprises grew indicating that investment fulfilled in 2012 across most economic sectors. Industry sector was reported with the most capital increases of about EUR 1 million, followed by manufacturing sector accounting for EUR 529 million, energy with EUR 497 million, and financial intermediaries and insurance with EUR 646 million, construction and real estate transactions for about 300 million. The latter ones reported losses larger than earnings due to the economic conditions at either international or national levels. It can be included here the distribution of important amounts in the form of dividends in 2012 which conducted to a wider net loss. Thus, dividends distributed amounted to EUR 134 million in financial intermediation and insurance, and to 158 million for construction and real estate transactions sector.

In manufacturing, energy and trade, construction and real estate transactions, the direct flows of financing increased very strong through net credit from parent banks to their subsidiaries (respectively EUR 606 million, 173 million, 423 million, 213 million).

In conclusion, overall industry benefitted by a EUR 1,828 million worth of net Foreign Direct Investments flow, accounting for 85,5 % of the 2012 net direct foreign investors, in spite of significant losses of 1,491 million and dividends distribution in amount of 960 million. This was possible due to support of equity capital of about EUR 1,072 million, net credit received in amount of EUR 862 million, and reinvested earnings of about 2,345 million.

As for the end of 2012, the total Foreign Direct Investments in Romania reached EUR 59,126 million, increasing with about 7% than the previous year.

If we take in to accounts the Foreign Direct Investments structure analysis, the main share of the investors inflows belongs to equity capital with about 66,4 % from total amounting EUR 266 million at the end of 2012. On second place is situated total net credit received by direct investments enterprises from foreign direct investors, including intra-group credit which has reached EUR 19,860 million. Net credit includes both the medium and long term loans and short term loans granted by foreign investors to their investment enterprises in Romania, in a direct manner or through other non-resident members of the group.

As may concern the foreign direct investors in enterprise on the equity capital form by main economic activity, the flows were targeted primarily to manufacturing ( 31,1 % of total ), out of which the largest recipients were oil processing , chemicals, rubber and plastic products (6,7 %), transport means (5,4 %), metallurgy (4,9 %), food, beverages and tobacco (3,7 %), and cement, glassware, ceramics (2,8 %). Other sectors that attracted significant Foreign Direct Investments are financial intermediation and insurance accounting about 18% from total, trade with approximately 11%, construction and real estate transactions (9 %), IT&C (5%).

Unfortunately, the agriculture, forestry and fishery sector is registering EUR 1,402 million from total, which represents only 2,4 % from total foreign direct investors.

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Because of the important contribution brought by tangible and intangible fixed assets to domestic economy growth, as well as the entailing long term nature of Foreign Direct Investments, in this way it can be calculated the weight of each investment categories in foreign direct investors stock at the end of the 2012 year, as well as their distribution by main economic activity.

The stability of the foreign investment is the result of the tangible and intangible assets, reaching at the end of the 2012 EUR 27,412 million, representing 46,4 % of total inflow.

Analysing the destination covered by the tangible and intangible fixed assets belonging foreign direct investors it revealed that industry accounted 27,7% from total, out of which the sector of manufacturing received the largest amount (17,9 %), trade (5,9%) and construction and real estate transactions (4,8%). Agriculture, forestry and fishery received a total amount of 658 million that represents 1,1 % of total.

If we analyse the distribution from territorial point of view of the Foreign Direct Investments on development region, the main share (60,6 %) was claimed by Bucharest-Ilfov region. Other development regions that attracted important share of foreign direct flows were the Centre region (7,8 %), the West region (7,6 %), the South-Muntenia region (7,2%), the South-East region (5,5 5), North-West (4,8 %), South-West Oltenia (3,5 %) and North-East region (3 %).

By country of origin there are four countries by share of Foreign Direct Investments stock as following: the Netherlands is occupying the first place with a share of 22,4 %, Austria (18,5 %), Germany (11%) and France with a share of 8,9 % from total.

Considering the three types of Foreign Direct Investments, the flow of equity stocks of foreign direct investors enterprises, amounting EUR 2,676 million, is divided into greenfield, mergers and acquisitions and corporate development. In 2012, about 95,5 % of total equity flow amounting EUR 2,663 million went to corporate development, but only EUR 18 million were used by greenfield investment and mergers and acquisitions had a negative influence of EUR 5 million.

In order to assess the lasting impact of greenfield investment on the economy, it was took into in consideration the accumulation of the Foreign Direct Investments in enterprises established as greenfield investment companies.

By main economic activity, the distribution of the foreign direct investors' flows showed that manufacturing was the main recipient with a share of (30,4 %). Other subsectors that owe an important share in such investment were trade (20%), construction and real estate transactions (14 %), and financial intermediation and insurance (12,8 %).

By region of development the main share of Foreign Direct Investments in greenfield enterprises went to Bucharest-Ilfov region (58%), followed by Centre region (11,6%), and the West and South-Muntenia regions which accounted for 10,1% and respectively 6,5% from total.

The ranking of countries of origin by the size of Foreign Direct Investments in greenfield enterprises differs very much from the ranking by the origin of total Foreign Direct Investments stock. Thus, the Netherlands holds the largest share of inflows of foreign direct

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investors in greenfield enterprises (20,6 %), followed by Germany (18,4%), Austria (11,1%) and Italy (7,7%).

**Conclusions**

In order to ensure a durable development it is important to assess the impact of the enterprises financed by the capital of the foreign investors on the Romania's exports and imports, taking into account the fact that these enterprises are controlling a large part of the foreign trade and about 90% of the banking system.

Agro-food sector has a particular macroeconomic importance due to its connections with other branches of the economy. For Romania, this sector has even a greater significance because of the Romanian domestic market size (population 22 million), rural population (47%), or because of the population share with agricultural activities (about 30% of the population). For these reasons, but not exclusively, rural area development is an important and challenging target.

Unfortunately, the place of this sector in the investors' strategies is negligible due to lack of attractiveness, high risk and weak profitability. This is complemented by institutional failures and lack of transparency in decision making.

Although agriculture, forestry and fishery registered a very small share of Foreign Direct Investments from total, represents the second economic sector which has reported aggregate trade surplus after industry (all other enterprises from other sectors registered trade deficit). We can appreciate that this situation is more below the potential offered by agriculture and forestry if it is taken into account the contribution brought by this sector to the economic growth and to rural sustainable development.

It should bear in mind the fact that only the national policies are the ones that can contribute to increase efficiency, competitiveness and sustainability in Romania so that in the process of their elaboration it should be taking into account the Foreign Direct Investments global impact on domestic economy and referring to creating and strengthening of a society based on knowledge, sustainable economy development, promoting of an industries and channelling much more investments for Romanian brands.

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