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***THE EVOLUTION OF FRENCH FOREIGN DIRECT INVESTMENTS IN THE  
ROMANIAN ECONOMY DURING 2007-2013***

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*Abstract: The contribution of foreign capital is a significant part of the economic development of a State, especially when the economic relations are strongly influenced by political and social ones. The present paper focuses on the analysis of the economic relationship between France and Romania in the period 2007-2013, known as the post-accession period. Firstly, we have analyzed the contribution of the French capital during the aforementioned period, through a comparative analysis of its evolution. Secondly, it has become relevant to our research to illustrate the main economic areas that have benefited from the support of French capital, noting whether the French investors' preferences have changed from the beginning to the end of the post-accession interval subjected to our analysis.*

**Keywords:** *foreign capital, post-accession period, Romanian economy, French investments, contribution*

### **Argument**

Foreign Direct Investments have an important contribution to the development of a country, their impact being visible not only in the economic sphere but also in the social, political or cultural one. The advantages of such an economic process are reported on both the investing country and upon the recipient. Some of the benefits of FDI to the host country include creating jobs, stimulating trade and technology transfers. FDI stimulates economic development through a dynamic and complex process of quantitative accumulation and structural-qualitative changes in the system of production forces and relations.<sup>1</sup>

The advantages are more significant if these investments are taking place in countries which are in the process of development, as it is the case of Romania. Foreign investors are attracted by the existence of a favorable economic environment, characterized by factors such as fair taxation, protection from unlawful expropriation or fair competition. Despite these advantages, foreign investors face difficulties in the process of outsourcing of the capital. This action requires skills such as coordinating a business away or signing cooperation agreements with governments that have different policies. However, the advantages prevail, which resulted in the expansion of FDI, as a characteristic of the modern economic world.<sup>2</sup>

Romania is trying to create a business environment favorable to the development of the market economy and to attract FDI. Since 2007, in the context of the EU integration, Romania has intensified its cooperation with European countries.

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<sup>1</sup> Cătălin Postelnicu, Adina Rus, *Coordonate ale economiei internaționale*, Editura Casa Cărții de Știință, Cluj-Napoca, 2007, p. 99.

<sup>2</sup> Charles Lipson, *Standing guard – Protecting foreign capital in the nineteenth and twentieth centuries*, Center for International Affairs, Harvard University, 1985, p. 4.

This paper analyses the French Foreign Direct Investments in Romania in the period 2007-2013. Therefore, our research will start with the presenting the contribution of French capital during those 7 years of the post-accession period. The purpose of this analysis is to observe the French capital contribution from year to year, from the beginning to the end of the period. Moreover, this study mentions also the main economic areas that benefited from the support of French capital. Following the same framework, it can be observed if any changes have occurred between areas over the period.

In terms of methodology, the study is developed at a comparative level, using a combination of qualitative and quantitative methods. This is exposed by a qualitative interpretation of the quantitative data in order to provide clearer explanations. Regarding the use of qualitative methods, we chose the document analysis and the case study to achieve the objective of our research. So, we will focus on an analysis of the volume of French capital contribution during concerned period, in order to see if there were differences from one year to another, but also to identify the main causes of this situation. Moreover, research is detailed by exemplifying the main economic areas that had the support of the French capital. At the same time, the aim is to present the main economic areas to see if French investors' preferences have changed during the post-accession period.

On the other hand, the quantitative research uses numbers and statistical analysis methods to investigate. The main purpose of the quantitative analysis is to measure the research data, in order to test the hypotheses. For the present research, we used descriptive statistics because they allow links between variables, such as certain economic indicators.

The development of the study at a compared level is realized to confront the obtained results in order to provide a broader context and to identify general templates that can help to test the theories. In this research, we compared the level of foreign investment during the mentioned period to see if the French investors' interest was amplified or decreased, noting which were the causes of this fact and the main areas of investment.

### **Foreign capital investments during the period 2007 – 2013**

A high level of FDI in the economy of a country is an important element of its development and for the efficient functioning of the market, because it supports the technological upgrading and raises the quality standards. The preference of developing countries for choosing direct foreign investments is motivated by the fact that, in comparison to foreign lending, it contributes not only with capital flows, but also with technological know-how and managerial experience.<sup>3</sup> It is of high importance for the national economy that the domestic and foreign investments are linked to the economic environment - if the investment rate is faster, the economic growth is stronger and more durable.<sup>4</sup>

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<sup>3</sup> Bogdan Titus Corondan, *Impactul structurii investițiilor străine directe asupra cuantunului și dinamicii prelevărilor fiscal*, în RFPC nr. 1/2012, Ministerul Finanțelor Publice, 2012, p. 20.

<sup>4</sup> Elena Moise, *Investițiile străine directe*, Editura Victor, București, 2005, p. 88.

At the same time, the impact of FDI is influenced by their origin. Thus, there are cooperative relationships between states which are based on history or partnerships in organizations or international associations.

For example, in our research, the diplomatic relation between Romania and France is a relationship based on history, dating back more than 130 years<sup>5</sup>, but also one of cooperation under treaties like the European Union or North Atlantic Treaty Organization.

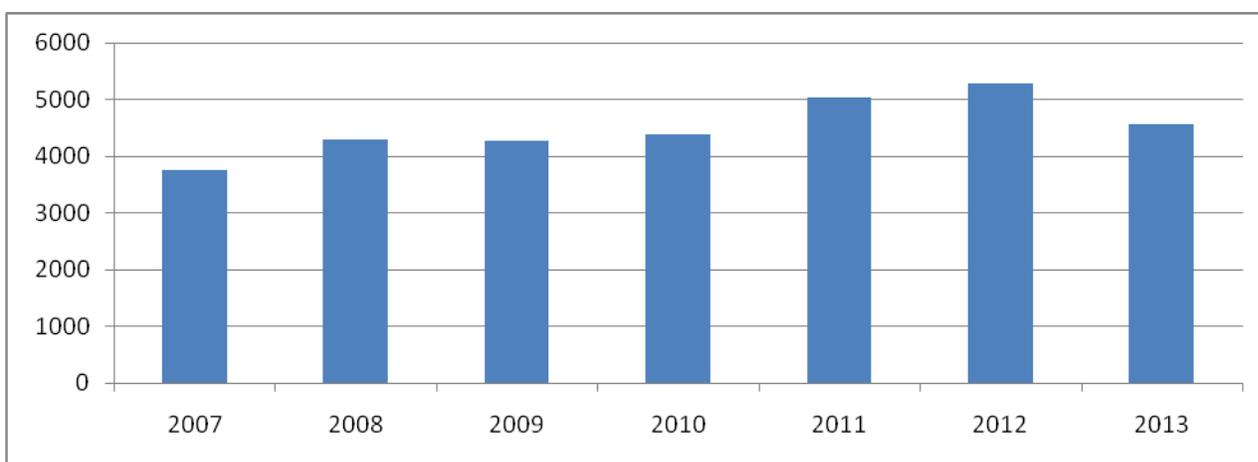
The analyzed period in this study, 2007 - 2013, is the post-accession period to the European Union. Since then, economic relations between Romania and France are conducted under Community law. In addition, other important agreements for governing the bilateral economic relations are:

- Agreement about the avoidance of double taxation on income and property, entered into force in 27 September 1975;
- Agreement about the promotion and mutual protection of investments, entered into force in 2 June 1996.<sup>6</sup>

In the following lines, we will analyze the volume and the evolution of FDI during the post-accession period.

Thus, on a first glance to the presented chart, we see that the French FDI had constantly evolved, reaching a higher level of contribution to end of the period; in 2013 it had a value of 4568 million Euros, beside the value of 3759 million from 2007. The fact that these investments not only recorded an increase during the analyzed period is due to the international events, with global impact on the economy.

Figure 1. The volume of French foreign investment in the period of 2007-2013



Own processing after data provided by [www.bnr.ro](http://www.bnr.ro)

<sup>5</sup> Romanian Embassy in France, *Relații bilaterale – Scurt istoric*, available at [ <http://paris.mae.ro/node/221>], last access: 21 March 2015.

<sup>6</sup> Romanian Embassy in France, *Relații economice*, available at [ <http://paris.mae.ro/node/168>], last access: 23 March 2015.

Before beginning the presentation of the investment level during the period 2007 – 2013 for each year separately, it is important to mention that France has been one of the most active partners of Romania in the pre-accession period, registering steady growth of FDI and occupying the first places in the ranking of investing countries. Given the fact that France has been a great supporter of Romania's integration in the European Union in 2007<sup>7</sup>, at the beginning of the post-accession, French FDI in Romania reached the level of 3759 million. Against the backdrop of the global economic crisis, the year 2009<sup>8</sup> has determined a decrease of French FDI compared to 2008<sup>9</sup>, rising from 4294 million euros to 4259 million euros. Even if there has been a decrease, it was reduced in comparison to the impact of the global economic crisis and it has not affected the evolution of French FDI in Romania. In this context, in 2010<sup>10</sup> we are facing a shy increase in the investments area, reaching the level of 4384 million. This indicates that the French FDI in Romania are stable investments in areas which were not heavily affected by the crisis. Some of the preferred areas by French investors are automotive industry or trade industry, but this aspect will be further exposed in the second part of our study. In 2011<sup>11</sup>, the total French FDI registered was of 5042 million euros, which is noted to be the most significant increase from one year to another in the studied period. Thus, in 2012<sup>12</sup>, we note the high level of FDI, the total registered was of 5273 million euros. Through a further analysis, we can see that this increase does not characterize the whole FDI area in the post-accession period; sometimes a significant decline can be noted.<sup>13</sup> The case of French investments is a particular one, determined by the nature of investments, due to the nature of investments and to the diplomatic relationships between these two countries. In 2013<sup>14</sup>, French FDI recorded a slight decrease, totaling 4568 million euros but it did not affect the economic market in Romania, which began to experience a slight recovery after the Great Depression.

From the presented chart we note that the amounts invested have fluctuated over the studied period, being influenced by the global economic situation. The French FDI upward trend at the beginning of the studied period has followed the tradition of growth from the pre-accession period, being interrupted by the impact of the global economic crisis. The years 2009-2010 are characterized by a decrease of FDI, a recovery can be mentioned starting with 2011-2012. The decrease observed in 2013 took place in a context where foreign investors have adopted a more reserved position in increasing the investments, preferring to stabilize the existing businesses. This attitude was a precautionary measure, taking into account the economic events caused by the Great Depression. In this context, Romania has lost its appeal, especially due to underdeveloped infrastructure.

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<sup>7</sup> National Bank of Romania, *Investițiile străine în România la 31 decembrie 2007*, București, 2008, p. 3.

<sup>8</sup> *Idem*, *Investițiile străine în România la 31 decembrie 2009*, București, 2010, p. 3.

<sup>9</sup> *Idem*, *Investițiile străine în România la 31 decembrie 2008*, București, 2009, p. 3.

<sup>10</sup> *Idem*, *Investițiile străine în România la 31 decembrie 2010*, București, 2011, p. 3.

<sup>11</sup> *Idem*, *Investițiile străine în România la 31 decembrie 2011*, București, 2012, p. 3.

<sup>12</sup> *Idem*, *Investițiile străine în România la 31 decembrie 2012*, București, 2013, p. 3.

<sup>13</sup> For further information, see also Elena Rusu, Delia Lung, *FDI flows in Romania before and after EU integration: a comparative approach*, in *Modelling the New Europe*, Online Journal, No. 14, 2014, p. 22.

<sup>14</sup> National Bank of Romania, *Investițiile străine în România la 31 decembrie 2013*, București, 2014, p. 5

It is important to note that France has constantly occupied the fourth position within the ranking of the investing states in Romania, after countries as the Netherlands, Austria and Germany. This shows that Romania has stable partners in the economic relations. It is important that the same countries are present throughout the period investigated, but also that they maintain their constant share of FDI. At the end of the post-accession period, during those seven years, France has invested 31,578 million, appearing during the whole period on the fourth position in the ranking of participating countries.<sup>15</sup>

### **The main economic sectors**

Attracting foreign direct investment is an important means of developing an economy. In the lines below we will focus on presenting the main French investors in Romania in fields such as like industry, finance, trade and telecommunications.

Automobile-Dacia S.A. is the leading automotive manufacturer in Romania and was born in 1966; two years later it produced the first model Renault - Dacia 1100, under the license of Renault 8. In 1999, Renault purchased 51% of the capital after the privatization process, and currently holds 99.43% of the capital of Dacia.<sup>16</sup> Currently, Dacia is one of the most important companies in the Romanian economy and the second brand of the Renault group, with a turnover in 2013 of 18.402.497.788 lei and a net profit of 337.444.120 lei to a number of 14 002 employees.<sup>17</sup> In competition with other automobile companies, Dacia has the advantage that it offers a great rapport price/ quality /reliability.

Orange Romania S.A. is the brand under which France Telecom provides mobile communications services, Internet and television in our country.<sup>18</sup> The company provides telecommunication services to individuals and legal entities. Orange is the leader of telecommunications market in Romania from 2004, with 10.436 million customers, a revenue of 934 million euros<sup>19</sup> and a number of 2.855 employees<sup>20</sup>, reported on 31 December 2013.

Carrefour Group is the largest European distributor and the second worldwide, developing its business in 34 countries. In Romania, Carrefour operates with 4 types of stores: hypermarkets, supermarkets, convenience stores (Express Angst and Contact) and a website for online commerce. Hypermarket concept was invented by Carrefour 40 years ago in France and was first

<sup>15</sup> La Direction Générale du Trésor, *Les services économique à l'étranger – Roumanie*, available at [http://www.tresor.economie.gouv.fr/pays/roumanie], last access: 5 April 2015.

<sup>16</sup> Dacia Company, *Dacia, cel mai bun ambasador al economiei românești*, available at [http://www.dacia.ro/despre-noi/marca-dacia/filosofia-dacia/], last access: 7 April 2015.

<sup>17</sup> Doing Business Website, *Automobile-Dacia S.A.*, available at [http://doingbusiness.ro/financiar/raport/93330/automobile-dacia-sa/], last access: 7 April 2015.

<sup>18</sup> Orange Romania, *Despre noi – Orange este ceea ce suntem și ceea ce facem, în fiecare zi*, available at [http://www.orange.ro/about-body-ro.html#m=100-4-6], last access: 8 April 2015.

<sup>19</sup> Orange Romania, *Despre noi – Orange este una dintre cele mai mari companii de telecomunicații*, available at [http://www.orange.ro/corporate/about-ro.html], last access: 8 April 2015.

<sup>20</sup> Doing Business Website, *Orange Romania S.A.*, available at [http://doingbusiness.ro/financiar/raport/1398769/orange-romania-sa/], last access: 8 April 2015.

brought in Romania in 2001.<sup>21</sup> At the end of 2013, Carrefour Romania S.A. records a turnover of 4.289.031.026 lei and a net profit of 144.301.868 lei at a number of 6703 employees.<sup>22</sup>

BRD- Groupe Société Générale is one of the leading financial services groups in Romania. This is the former Romanian Bank for Development, using the name of BRD- Groupe Société Générale from 2003, after its listing on the Bucharest Stock Exchange. One year later, Société Générale bought the residual package of shares from the Romanian state and increased its stake from 51% to 58.32%.<sup>23</sup> On 30 September 2013, BRD declared a net income of 51 million lei, while BRD's loan stock was 34.4 billion lei, down with 5.1% compared to the level registered on 30 September 2012.<sup>24</sup>

The Michelin Group operates in Romania since August 2001 and at this time it has three factories and a commercial network. Most of the products from here are sold through a national distribution network, but also exported to Europe and North America. Currently, the Michelin team has 3,000 employees.<sup>25</sup> At the end of 2013, Michelin Romania S.A. records a turnover of 2.123.412.336 lei and a net profit of 78.028.208 lei.<sup>26</sup> In addition to the production activities, such as tire manufacturing (truck tires or industrial tires), Michelin has organized in Romania the coordination center of the commercial area of Central and South Europe.

As we can see after the presentation of some leading companies, the French capital is involved in various activity fields on the Romanian market, but it is important to note that most of the investments are materialized in the form of small and medium enterprises. Those operate throughout the country and activate in different sectors such as clothing, agriculture or industry.

### Conclusions

Following our research, it can be noted that the French FDI tend to be constant and stable in the Romanian investment market. Romania has the advantage of the attractiveness for low cost labor, but the infrastructure is underdeveloped.

Economic cooperation between the two entities is the result of a traditional relationship, and a strategic partnership at the European level. Therefore, this research investigated the contribution of French capital in the post-accession period 2007-2013, in order to see the contribution level and the main economic areas that presented attractiveness for French investors. After analyzing the presented companies, we conclude that the interest of French investors is

<sup>21</sup> Carrefour Romania, *Despre Grup Carrefour*, available at [<http://carrefour.ro/despre-grup-carrefour.html>], last access: 8 April 2015.

<sup>22</sup> Doing Business Website, *Carrefour Romania S.A.*, available at [<http://doingbusiness.ro/financiar/raport/581039/carrefour-romania-sa/>], last access: 8 April 2015.

<sup>23</sup> Brd - Groupe Société Générale, *Istorie*, available at [<https://www.brd.ro/despre-brd/profil/istorie/>], last access: 14 April 2015.

<sup>24</sup> Brd - Groupe Société Générale (2013), *Rezultatele BRD la 30 septembrie 2013: profit net de 51 milioane RON*, available at [<https://www.brd.ro/stiri/rezultatele-brd-la-30-septembrie-2013-profit-net-de-51-milioane-ron/>], last access 14 April 2015.

<sup>25</sup> Michelin Romania, *Despre Michelin in Romania*, available at [<http://www.michelin.ro/despre/michelin-in-romania>], last access: 14 April 2015.

<sup>26</sup> Doing Business Website, *Michelin Romania S.A.*, available at [<http://doingbusiness.ro/financiar/raport/1368629/michelin-romania-sa/>], last access 14 April 2015.

oriented towards sectors such as industrial equipment manufacturing, transportation, energy, banking and insurance, trade and services. However, the industry is proving to be the main attractive economic sector for foreign investment, and the best example is the development of companies such as Dacia. This brings a significant contribution to the GDP and to the development of the Romanian economy.

In conclusion, the Romanian business environment is still at an early stage of development and this can be overcome only by creating a favorable economic environment to attract foreign investors.

Given the fact that competition between countries to attract FDI has become increasingly intense, measures such as attractive fiscal policy, business transparency, protection from unlawful expropriation can be applied. Romania's integration in the EU determined a more intense collaboration with its stable partners, old members within EU and their contributions have significantly developed the economic environment of our country.

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