Current Difficulties of Regional Harmonization in Romania

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Abstract: Given that the current economic disparities have piled up in time, "catching the end" is a lengthy process and requires a significant improvement in the economic, institutional and legislative framework and not least in the concentration of social politics for a more inclusive development. The purpose of this paper lies in analyzing regional disparities and foreign direct investment (FDI) in Romania, in 2013, from the perspective of several structural analyses. Through the structural analysis of foreign direct investment we aim to identify the concentration of foreign capital on the source countries, regional destinations and areas of economic activities.

Keywords: regional disparities; value added; economic activities; FDI structure; foreign capital

JEL Classification: F21; F62

1. Introduction

The purpose of this paper lies in analyzing regional disparities and foreign direct investment in Romania, in 2013, from the perspective of several structural analyses. Through the structural analysis of foreign direct investment we aim to identify the concentration of foreign capital on the source countries, regional destinations and areas of economic activities. Foreign direct investments are one of the representative vectors of actual economic progress and their role tends to become significantly complex in regional economic development through their impact on the evolution of economic and social disparities between regions.

This paper is divided into four sections as it follows:section two provides a comparative analysis regarding regional disparities in the EU and in Romania, the third section of the paper presents the concentration of capital on source countries and regional destinations while the fourth section presents the regional disparities in attracting foreign direct investment followed by the main conclusions.

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2. Comparative Analysis of Regional Disparities in the EU and in Romania

The EU enlargement to 28 member states, tones up the disparities within the Union, context in which, the reduction of such disparities becomes inevitably a lengthy process, which requires the identification of the sources resulting in the differences between the regions in question and enhances from this perspective the role of economic, social and territorial cohesion policy. Under these circumstances, the EU Treaty sets as objective of the cohesion policy, the reduction of economic, social and territorial disparities through a special support administered to less developed regions (European Commission, 2014, p. xviii).

In order to quantify the development of the regions, a relevant set of indicators must be used such as : Gross Domestic Product (GDP) at current market prices by regions, unemployment, labor productivity, the level of income per inhabitant, employment structure, the level of innovation, the degree of development of the infrastructure, the foreign direct investment.

Analyzing from the perspective of economic development, in terms of GDP/inhabitant expressed in Purchasing Power Standard (PPS), in 2013, the highest values are recorded in the most developed European countries such as: UK, Luxembourg, Belgium, Germany, Norway, the Netherlands, France (Table 1). According to statistical data provided by Eurostat, it is noted that in Romania, the most developed region is the capital just as in many EU countries (the UK, Luxembourg, Belgium, Norway).

On the other hand, the regions in EU that record the lowest values of the GDP per inhabitant are the following: Severozapaden in Bulgaria records the lowest value in the UE, 7.700 Euro; Mayotte in France 7.900 Euro; Severen tsentralen and Yuzhen tsentralen in Bulgaria record the same level of 8.600 Euro, followed by the Nord-Est region of Romania with a GDP per capita of 9.000 Euro.

Table 1. Interregional disparities at the E28 level, GDP per capita in 2013

Regions with the highest GDP per capita in PPS	Maximum GDP per capita in PPS	Regions with the lowest GDP per capita in PPS	Minimum GDP per capita in PPS
1.Inner London - West	141.300	1.Severozapaden	7.700
2.Luxembourg	70.500	2.Mayotte	7.900
3.Région de Bruxelles-Capitale / Brussels Hfdst.	56.500	3.Severen tsentralen	8.600
4. Hamburg	54.500	4.Yuzhen tsentralen	8.600

5.Inner London - East	52.800	5. Nord-Est	9.000
6.Oslo og Akershus	51.800	6.Severna i yugoiztochna Bulgaria	9.300
7.Groningen	51.400	7.Poranesna jugoslovenska Republika Makedonija	9.500
8.Bratislavský kraj	50.000	8.Severoiztochen	10.100
9.London	48.500	9.Yugoiztochen	10.300
10.Île de France	48.300	10.Sud-Vest Oltenia	10.700

Source: Eurostat statistics

Hereinafter, to have an overview on the development of the regions in Romania, we will present the regional gross domestic product at current market prices by regions (GDP/inhabitant), which gives us important information regarding the degree of economic development in our country. According to the statistical data presented in Table 2, the Nord-Est region has the lowest GDP/inhabitant compared to other regions in Romania, with the highest level registered in 2013 (9.000 Euro). Also, we must notice the separation of the Bucuresti-Ilfov region at the expense of other areas in the country, with a GDP of 33.900 Euros, over the UE28 average (26.700 Euro).

Table 2. Gross domestic product per capita expressed in PPS by Romania regions

Region	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nord-Vest	7.400	8.700	10.300	11.100	10.800	11.200	11.400	12.500	12.500
Centru	7.700	9.100	10.700	11.800	11.500	12.100	12.400	13.800	13.500
Nord-Est	5.200	5.900	6.700	7.600	7.400	7.700	7.800	9.000	9.000
Sud-Est	6.900	7.900	8.700	9.800	9.500	10.300	10.700	12.300	13.000
Sud - Muntenia	6.600	7.700	8.700	10.100	10.100	10.400	10.800	11.000	11.400
Bucuresti - Ilfov	18.600	21.100	25.200	31.800	28.300	30.700	34.300	33.400	33.900
Sud-Vest Oltenia	6.100	7.200	8.200	9.200	9.000	9.600	10.100	10.800	10.700
Vest	8.800	10.500	12.000	13.800	13.200	14.200	14.700	15.400	15.100

Source: Eurostat statistics

Given that the dominant activity in the Nord-Est region and in the Sud-Muntenia region is represented by agriculture and given the close proximity of this regions to Moldova and Ukraine on one side and Danube on the other side, makes the cross border cooperation difficult, adversely affecting the development of these regions. On the other hand, as the central and western regions are geographically close to the EU, they have a developed infrastructure, human resources are highly skilled and they are more attractive for foreign direct investment, thus positively influencing the economic growth (Albu, 2006, p.70). From this perspective, we believe that these differences between regions, presented above, partially explain the increased regional disparities.

3. The Concentration of Capital on Source Countries and Regional Destinations

In 2013 foreign direct investors in Romania derive both from developed countries and emerging/developing countries. The main four investors in Romania ranked by the percentage held in the FDI stock in 2013 are: the Netherlands who owns 24.4 percent of the FDI, Austria (19.1 percent) Germany (11.2 percent) and France (7.6 percent) (Figure 1).

In contrast, countries that shares significantly smaller in the total volume of FDI in Romania are the following: Italy (4.7 percent), Greece (3.2 percent), Switzerland (3.2 percent), Czech Republic (1.8 percent), Hungary (1.2 percent), Turkey (0.6 percent).

The analysis of data presented in the Figure 1 shows that the largest share of foreign direct investment comes from the states members of the European Union, over 90 percent, causing a certain degree of economic dependency of Romania towards the economic situation in these countries.

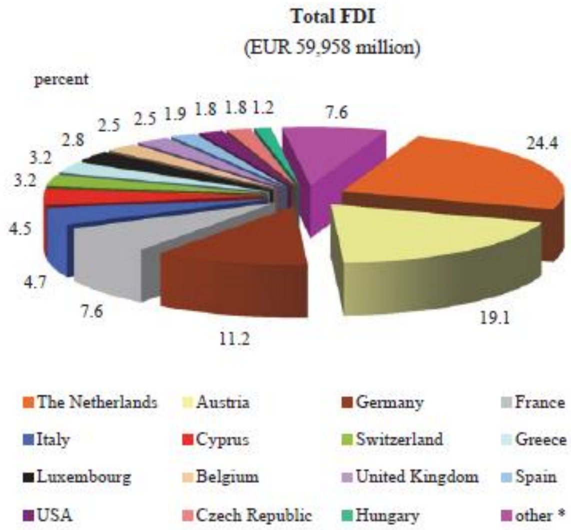

Figure 1. The stock of FDI in Romania in 2013, allocated by source countries

Source: NBR, Foreign Direct Investment in Romania in 2013, p. 23

Also we can notice the fact that the contribution to the financing of FDI in our country is uneven. While a total of four countries the Netherlands, Austria, Germany and France come with a contribution of 62.3 percent to finance FDI, other member states such as Italy, Cyprus, Greece, Luxembourg, Belgium, UK, Spain, Czech Republic, Hungary, Sweden, Ireland, Denmark, Portugal, Norway, Poland and Finland, come with a low share of only 28.3 percent of the total FDI stock. Foreign capital from countries with high economic and financial potential such as the US, Japan, Canada, China registers a low level in Romania's economy, in this context, it is up to the decidents to take measures, strategies and particular policies in order to attract foreign capital in these countries and to enhance cooperation relations with these countries.

From the statistical data on the situation of the top 40 companies by foreign participation in the total subscribed shared capital, in currency equivalent, on 31st December 2013, we find that Germany invested in companies such as : Stabilus Romania SRL (Brasov), Star Assembly SRL (Alba), Star Transmission SRL (Alba) and in other companies. The Netherlands invested in Continental Automotive Systems SRL (Sibiu), Teva Pharmaceuticals SRL (Bucharest), E-Bca Software Holdings SRL (Bucharest), and others. Austria invested in Bardeau Holding Romania SRL (Timis), Hirschmann Romania SRL (Mures), Lamda Imobiliare SRL (Bucharest), Windfarm MV I SRL (Bucharest), and others (NTRO, 2013, p. 21).

Regarding the statistical situation on the hierarchy of counties based on the number of companies and capital expressed in currency in December 2013, highlights the concentration of foreign capital in industrialized counties. Bucharest is the first in number of companies and also holds a very high number of companies with foreign participation, the number reaching 170 companies and a very large share of the subscribed capital of 86.4%, followed by Ilfov county with a total of 46 companies and a share of the subscribed capital of 1.13 % and Cluj with a total of 28 companies and a shared capital of 1.35% (NTRO, 2013, p. 12).

Statistical reports also show a preference of foreign investors towards the counties economically developed, in proximity to the EU border, near an airport, with a developed transport infrastructure and access to public utilities, with a presence of industrial parks and with a quantity and at the same time quality of qualified human resources.

Down the hierarchy are listed counties such as Alba, Calarasi, Salaj, which are not sufficiently attractive to foreign investors, situation that can be explained against the background of a low socio-economic level, the migration of human resources to other regions and not least an underdeveloped infrastructure.

4. Regional Disparities in Attracting Foreign Direct Investment

From a regional perspective, in 2013, we observe the same uneven distribution of foreign direct investments, which are oriented towards regions that benefit from a developed physical infrastructure such as Bucharest-Ilfov (61.4 percent). In this region we find the most representative investors on 31 December 2013 the British within the pharmaceutical company GlaxoSmithKline (GSK) SRL with a value of the subscribed capital of 66803.9 thousand euro, the Bulgarians within the company Affichage Romania SRL with a subscribed capital of 315663.3 thousand euro, the Polish within banks, Romanian International Bank SA with a value of subscribed capital of 29770.4 thousand euro ((NTRO, 2013, p. 21).

Regarding the following development regions, they perceived a significantly lower flow of FDI: the Centru region who perceived 8.6 percent attracted investors from Germany (Stabilus Romania SRL), the Netherlands (Continental Automotive Systems LLC), France (Rouleau-Guichard Roumanie SRL), Austria (Hirschmann Romania SRL), Israel (Isro House SRL); the Vest region (7.6 percent), capital brought by the Austrians (Bardeau Holding Romania SRL); the Sud-Muntenia region (7.7 percent) capital brought by the Portuguese (Pragosa Romania SRL), the Nord-Vest region who perceived 4.5 percent in FDI flows is preferred by investors from Germany (Kemna Building materials LLC), Sud-Est region (4.2 percent) also preferred by investors from Germany (Crucea Wind Farm SRL) and Italy (SPS SRL); the Sud-Vest Oltenia who perceived only 3.2 percent and the Nord-Est region received the fewest foreign direct investments consisting in 1.685 million

EUR (2.8 percent), among the development regions of the country, occupying the last place in the preferences of foreign investors (Table 3).

We believe that this last place occupied by the Nord-Est region can be explained against the background of the low social and economic conditions in the region and also against the lack of strategies in promoting foreign direct investments by local authorities and the absence of a favorable business environment.

Table 3. The stock of FDI in Romania in 2013 by development regions

Economic development region	Value (million)	Share in total FDI (%)
TOTAL Romania, of which:	59.958	100.0
Bucuresti-Ilfov	36.808	61.4
Centru	5.179	8.6
Sud-Muntenia	4.599	7.7
Vest	4.581	7.6
Nord-Vest	2.665	4.5
Sud-Est	2.529	4.2
Sud-Vest Oltenia	1.912	3.2
Nord-Est	1.685	2.8

Source: NBR, Foreign Direct Investment in Romania in 2013, p. 11

Note that the Nord-Est region and the Sud-Vest Oltenia, which attracted the fewest FDI have also recorded the lowest levels of GDP / inhabitant nationwide (Nord-Est (9.000) euro, Sud-Vest Oltenia (10.700 euro)) in 2013, according to Eurostat.

Regarding the distribution of the main economic activities in 2013, we can observe from the graphic the orientation of foreign capital mainly towards manufacturing (31.1 percent), financial intermediation and insurance with 14.2 percent, trade (11.2 percent) and electricity, natural gas and water (11.1 percent), (Figure 2).

The relatively high share of foreign capital towards industry compared to the lower share in the field of services can be explained by: the Romanian tradition in the industrial sector, the specialized labor force, and the relatively low rents and costs regarding the land.

Within the processing industry on the first three positions we can find oil processing, chemicals, rubber and plastic products (18.9 percent); the vehicle manufacturing industry (18.5 percent) and metallurgy with 13.3 percent from the total FDI flows (NBR 2014, p. 20), areas with a relatively high degree of added value.

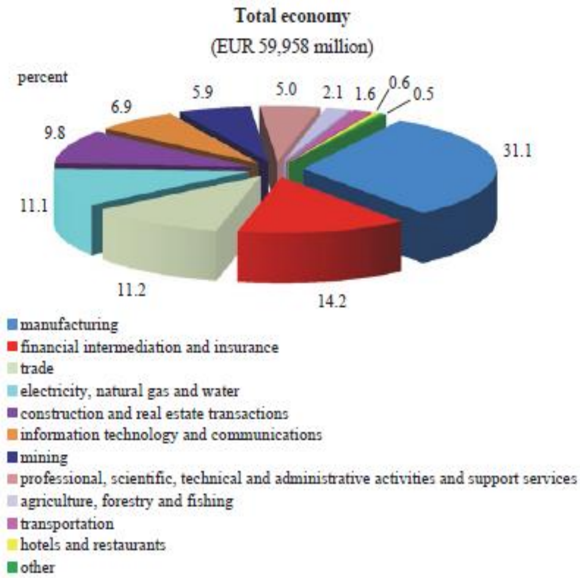

Figure 2. The stock of foreign direct investment in Romania in 2013, according to the main economic activities

Source: NBR, Foreign Direct Investment in Romania in 2013, p. 20

Concerning the net income made by foreign direct investors, according to NBR, in 2013 was recorded a value of 2.839 million, which represented a growth of 1.572 million euro (124 percent) compared to the previous year. The net income consists of earnings form participants in capital and net income from interest. The income from capital participations are profits earned by the FDI companies, worth 5.504 million euro reduced by losses in the amount of 3.554 million euro which the FDI companies have registered, resulting in an amount of 1.950 million euro in 2013. By lowering the revenues of capital participations that were distributed in 2013 to the foreign direct investors (worth 2.287 million euro) we achieve a net loss on the total FDI, worth 337 million euro, calculated according to international methodology for determining reinvested earnings. The net income from interest received by foreign direct investors on loans granted to their companies in Romania, directly or through other non resident companies within the group, has reached a level of 889 million euro. The value is lower compared to 2012, when there was recorded a value worth 936 million euro (NBR, 2013, p. 13).

5. Conclusion

Given that the current economic disparities have piled up in time, “catching the end” is a lengthy process and requires a significant improvement in the economic, institutional and legislative framework and not least in the concentration of social politics for a more inclusive development.

From the analysis of regional disparities, in Romania’s case we can observe an intensification of disparities between the development regions in terms of GDP/ inhabitant, the most significant differences are recorded between the Bucuresti-Ilfov region and the other regions.

From the structural analysis of foreign direct investments in Romania, in terms of capital concentration in the source countries, regional destinations and areas of economic activities, resulted that the largest share of foreign direct investment comes from the countries members of the European Union, over 90 percent, which causes a certain degree of economic dependency of Romania towards the economic situation of these countries, context in which, there is a risk to our country’s economy through the so-called contagion effect.

From the territorial point of view, in 2013 the Bucuresti-Ilfov region received a significantly higher flow of FDI to the detriment of other regions, holding a weight of 61.4 percent of the total foreign capital that entered our country. In contrast, the Nord-Est and Sud-Vest Oltenia, which attracted the fewest FDI have also recorded the lowest levels of GDP / inhabitant nationwide, for 2013.

Analyzing the concentration of FDI in various fields of the economic activity, we discovered the inclination of foreign investors in Romania towards the so-called traditional industries such as petroleum, chemicals, metallurgy and the activities in the service sector, where the largest share of FDI inclined to financial intermediation and insurance, after which trade appears to have been another favorite sector for foreign investors, followed by electricity, natural gas and water.

Under these circumstances we consider it necessary that the local authorities identify measures and strategies for attracting and directing foreign investment, especially towards those regions economically disadvantaged and towards those economic sectors with high added value.

6. References

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