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RECENT DYNAMICS OF BUSINESS IN ROMANIAN ECONOMY – FOCUS ON FOREIGN DIRECT INVESTMENTS IN AGRICULTURE

ABSTRACT

The business environment in Romania has often been influenced by many factors, both internal and external. This situation made it have a dynamic character. The influences were manifested in all the economic development regions of Romania and in all sectors of activity. In this study, we will confine ourselves to the influences that foreign direct investments have had, both at the level of the economy and at the level of agriculture. In the statistical analysis, the official internal and external databases were used, as well as the information provided by other publications in the field. We will focus on the development of foreign direct investments after Romania's accession to the European Union, i.e. the period 2007-2016. The obtained results show how foreign direct investments influenced the dynamics of the business sector, which were the effects of the infusion of foreign capital in the economy and in agriculture. The analysis highlights that foreign direct investments influence the subsequent positive or negative economic developments.

Key words: business, foreign direct investments, EU accession, agriculture, Romania.

JEL Classification: E22, M21, Q19.

1. INTRODUCTION

Romania has changed profoundly in the last twenty-nine years in all its aspects. In this context, the business environment has undergone many transformations. There have been multiple legislative and institutional changes. Other factors have contributed to these changes, including psychological, cultural or social ones. Also, "local actors" have permanently interacted with "foreign actors", whether we refer to business people, decision-makers or opinion leaders. Foreign investors are those "actors" who participate directly in the "games" of the market. For example, those who work in Romania have come up with their own investment behavior but, at the same time, they got adapted to the internal environment, and can now speak of certain peculiarities that are specific to Romanian businesses, as the result of contacts between them.

This permanent interaction between local, foreign and administrative-governmental structures has created opportunities, advantages, gaps, chances, but also disadvantages, bottlenecks and regressions, all of which outline Romania's business profile and prospects. We want to capture this picture in this paper.

Thus, the process of permanent transformation in which the economy is involved will be analyzed in terms of investments, especially foreign direct investments (FDI), their evolution in the Romanian economy, but also in agriculture, in the post-accession period. We consider that this type of investment represents at this time a great opportunity to bridge up the gaps created between rural and urban areas, as well as those that occur between the various branches of the economy or between the different economic development regions.

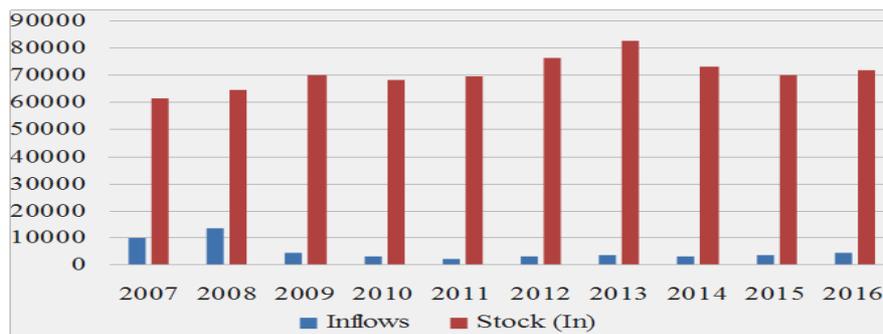
2. MATERIALS AND METHODS

The paper uses data provided by the National Institute of Statistics from Romania (INS), National Bank of Romania (BNR) and UNCTAD. Also, it uses information from other publications in the field, previously published by the author or other authors.

The paper is based on the statistical analysis of the evolution of the main indicators related to investments: stock and inflows of foreign direct investments. These are analysed at macro-economic and sectoral level. Here, we have in view the evolution of the foreign direct investments in the Romanian economy and agriculture.

3. RESULTS AND DISCUSSIONS

In the post-accession period, the pace of investments has fluctuated, mainly under the influence of external factors. Thus, in the first years of EU membership (2007–2008), the investments inflows in Romania were high, reaching a historic maximum that had not been reached before (Figure 1); afterwards, with the onset of the international economic and financial crisis, the investment activity was reduced.



Source: Voicilaș, D.M., 2017, Potențial și performanțe investiționale în regiunile economice de dezvoltare ale României, in "Economie agroalimentară și dezvoltare rurală într-o perspectivă regională", Ed. Academiei Române, București, România (based on UNCTAD data)

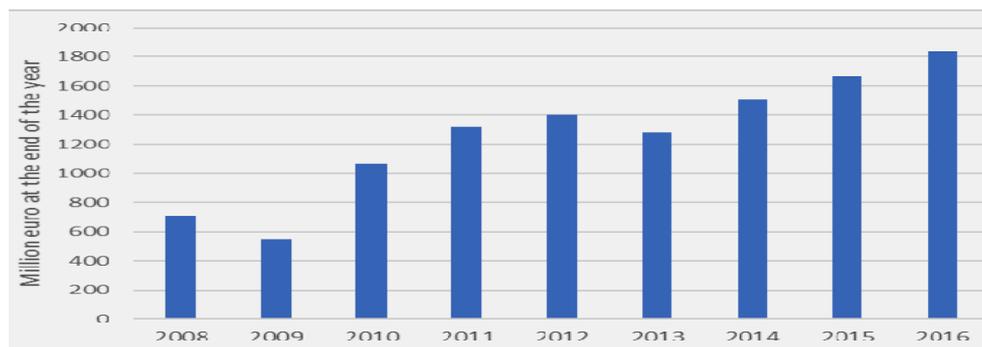
Figure 1. Evolution of FDI stock and inflows in Romania, in the post-accession period (billion USD).

This shows that Romania was no longer considered as attractive by foreign investors, among the factors of influence, besides those previously mentioned, being the internal political factors, the political, institutional and legislative instability. One particularity is that the investment activity in Romania has been affected since 2009, i.e. one year after the onset of the global crisis, which raises many questions about the real causes of this diminution of investment activity, i.e. whether these delayed effects are caused by the fact that national economy has not been fully connected to the international flows.

The revigoration of the investment activity at the level of the first two years of EU membership has not been produced yet. The latest UNCTAD data reveal that the year 2016 might be considered a relaunch year, yet not at the same level as ten years ago.

As regards agriculture, we must specify that, a 2009 report of the Romanian Commercial Bank estimated that “Romania’s agriculture could become a priority for foreign investors”, its main assets being the low farmland prices and the large arable areas with top quality soil (Alexandri-coord., 2017). The press reports on the agricultural land market have revealed the orientation of some real estate agencies towards the agricultural land business, as well as the purchase of agricultural land by the great agri-food companies and even by investment funds.

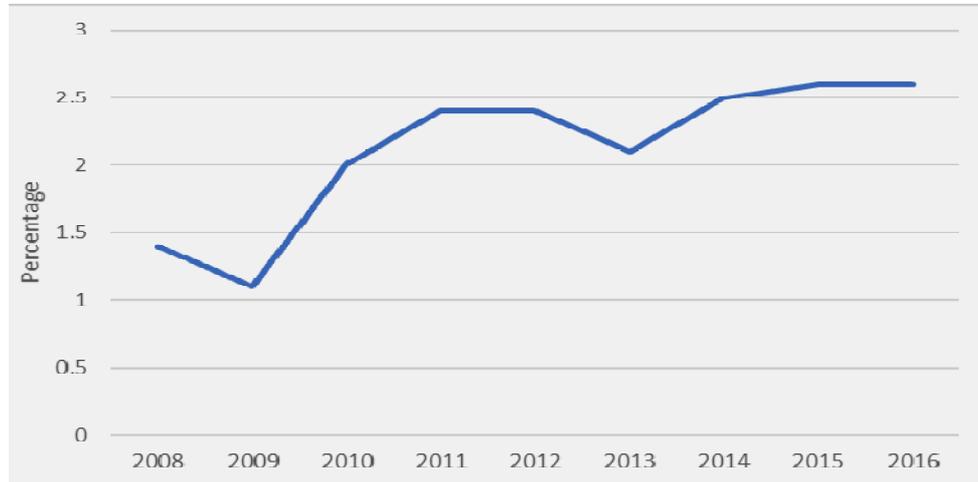
The official research on foreign direct investments, conducted each year by the National Institute of Statistics in collaboration with the National Bank of Romania, shows that FDI balance in “agriculture, forestry and fisheries” on December 31, 2008 was 707 million euro, i.e. 1.4% of total FDI in the Romanian economy. For the year 2007, the data published in World Investment Report 2009 (UNCTAD) show that the share of agriculture in FDI stock in Romania was under 1%, representing 412 million USD, a level close to that of Poland (446 million USD) and of Hungary (493 million USD). By the year 2014, the FDI balance was already double, to reach 1836 million euro by the end of 2016, which represented 2.6% of total FDI in Romania (Figures 2 and 3).



Source: Alexandri, C.-coord., 2017, *Agricultură și spațiul rural – evaluări la 10 ani de la aderare*, Ed. Academiei Române, București

Figure 2. FDI stock in agriculture, in Romania, in the post-accession period.

The FDI stock is the result of the annual inflow of investments with foreign origin, also the withdraw of investments during the year. Its evolution is represented in the Figure 3.



Source: Alexandri, C.-coord., 2017, *Agricultura și spațiul rural – evaluări la 10 ani de la aderare*, Editura Academiei Române, București

Figure 3. FDI inflows in agriculture, in Romania, in the post-accession period.

We would like to specify that other countries from Central and South-Eastern Europe had a similar evolution to that of Romania in terms of attracting FDI in agriculture. This happened as a result of the non-attractiveness of agriculture in general. Investors, regardless of the country where they invest, want a quick recovery of their capital, while agriculture, by its nature, does not offer this opportunity, compared to other sectors of the economy. The level of FDI in agriculture is lower than in other sectors of the economy. This situation, similar to that in other New Member States, can be explained by the specificity of this branch, with high risk of investments, dependency on weather conditions, low rotation speed of capital and consequently, very slow recovery of the investment. The only advantage for investors that we identified is the quality of land and this is the main reason why they invest in Romanian agriculture.

For years, a specific problem of the Romanian agricultural sector is the low capitalization. According to Price-Waterhouse Coopers Romania analyses, published in the year 2017, quoted by news.ro, Romania is on the penultimate place in the EU in terms of farm capitalization.

The analysis of net investment indices in agriculture, forestry/hunting and fisheries reveals a revitalization of investment activities in the last years, either under the impact of investments from own sources or under the impact of projects that used EU funds (Voicilaş, D.M., Gavrilăscu, C., 2017).

This involved investments in construction works, or investments in the purchase of machinery and means of transport, or under the form of investments in the creation of new assets, or for the development, modernization or reconstruction of the existing ones.

The positive evolution of net investments in agriculture is directly related to Romania's accession to the EU and it is the effect of the utilization of the structural funds (also the effect of the pre-accession funds) by the farmers who benefited from these. After many years when agriculture was denied access to financing sources, the EU membership and the access to EU funding have had beneficial effects that contributed to this sector development, compared to the 1990s.

4. CONCLUSIONS

At the time of joining the EU, Romania's agriculture was uncompetitive and had an unbalanced structure, in general. We can mention in this respect the agricultural output value, in favour of crop production, or the degree of processing of primary products, of vegetable or animal origin, resulting in exports of raw products and imports of processed products. The post-accession development programs and the investments of Romanian and foreign capital enabled a significant increase in the volume, efficiency and quality of agricultural and food products, as well as the free access on the Single Market. At the same time, investments in general, regardless of their source, have contributed to the increase of the quality of life, mainly in the predominantly urban regions.

We can conclude that in the post-accession period, the main factors that had a negative effect on attracting investors in general and foreign investors in particular, both in Romania's economy and in agriculture, were the political factors, the same as in the pre-accession period; the international conjuncture also added to these. At the same time, we cannot overlook the main factor with positive effect on attracting investors, both domestic and foreign investors, in Romania's economy and agricultural sector, namely the accession to the EU, permanent interaction existing between the two categories of factors, which also determined and defined the present profile of Romania, in terms of investments, i.e. a country that is not attractive for investments by comparison with other countries from the region, with poor potential and performance in general, even though there were years that contradicted this situation in reality. Unfortunately, the inter-country or inter-sectoral gaps, manifested even since the 1990s, have been maintained.

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