FOREIGN PARTICIPATION IN THE SHARE CAPITAL OF COMPANIES IN ROMANIA – A REGIONAL ANALYSIS

Mariana SEHLEANU[*a]

[a]*University of Oradea, Romania*

DOI: 10.24818/IMC/2020/01.03

ABSTRACT

There is a broad consensus in the field literature regarding the positive effects of foreign investments in the economy at the national and regional level. Foreign investments are considered an engine of economic development, a sine qua non condition for the general wellbeeing, especially in countries involved in catching up process. When we refer to regions, we can not overlook the existing disparities. Interregional disparities exist also in terms of foreign investments attracted. In this paper, after presenting some economic indicators that outlined the level of development of the regions, it was conducted an analysis of the distribution and evolution of the the value of subscribed capital and of the number of companies with foreign participation in the share capital registered in Romania, by development regions. During the analyzed period, 2001-2019, there was an upward trend in all the development regions in terms of the value of subscribed capital in companies with foreign participation. However, the difference between the Bucharest-Ilfov region and the rest of the regions is striking. The results showed that Bucharest-Ilfov region attracted the most in what concerns foreign investment. More than half of the foreign participations in the share capital were made in this region. The second position, in terms of the value of subscribed capital, is occupied by the Center region and the third by South-Muntenia region. Regarding the number of registered companies with foreign participation in the share capital, Bucharest-Ilfov region also dominates, being the most desirable region of development for the foreign investors who want to invest in Romania. West and North-West regions are placed on the second, respectively third position. South-West Oltenia development region is placed on the last place, both in terms of the number of companies registered and of the value of subscribed capital. This analysis revealed the major disparity between the Bucharest-Ilfov region and all the other development regions regarding the foreign investments attracted in the form of the participations in the social capital. This gap has accentuated during the last decade, the rhythm of growth being much higher in Bucharest-Ilfov region compared to the other development regions.

KEYWORDS: *companies, development regions, foreign subscribed capital, Romania.*

1. INTRODUCTION AND THEORETICAL BACKGROUND

There is a broad consensus in the field literature regarding the positive effects of foreign investments in the economy at the national and regional level. Foreign investments are considered an engine of economic development, a *sine qua non* condition for the general wellbeeing, especially in countries involved in catching up process. Over the last decades, all the world's economies "have witnessed a new development paradigm, based on innovation and constant adaptation" (Bădulescu et. al, 2020). When we refer to development regions, we can not overlook the existing disparities. Interregional disparities exist also in terms of foreign investments attracted, since "MNE networks have spurred spikier geographies and uneven regional development" (Crescenzi & Iammarino, 2017). In this regard, the aim of this research is to analyze the regional distribution

[*] Corresponding author. E-mail address: marietasehleanu@gmail.com

of foreign participation in the share capital of Romanian companies, by revealing, with respect to this topic, the gap between the eight development regions (North-East, South-East, South-Muntenia, South-West Oltenia, West, North-West, Center and Bucharest-Ilfov). The company with foreign participation in the share capital is the company partially or fully formed through the participation of individuals or legal entities with permanent residence or headquartered outside Romania, as mentioned by Romanian National Trade Register Office's report (2020). Our research will reveal which regions are more preferred by foreign investors and which regions should be more promoted through appropriate policies designed by authorities in order to attract more foreign investments. Therefore, in this study I will use statistical data provided by Romanian National Trade Register Office, Eurostat and Romanian National Institute of Statistics in order to conduct an analysis that will reflect the level of regional economic development, on one hand, and on the other, the structure of regional foreign participation in the share capital of companies in Romania.

The regional distribution of foreign investment was largely analysed in the literature. Researchers around the world addressed the topic of FDI (Foreign Direct Investments) distribution at regional level and of the factors that underpin this distribution. In this view, it can be mentioned the previous research of Bi et al. (2020), Fan et al. (2017), Hejazi (2009), Jordaan (2008), Kayam et al. (2013), Lee and Hwang (2014), Nistor (2012) or Salike (2016).

Regarding China, it is well known the fact that, in the past decades, the country attracted a great amount of FDI with an unequal distribution that balances towards coastal (easter) region (Salike, 2016; Fan et al., 2017). Hejazi (2009) also revealed a significant regional concentration of Asian multinational activity within China, while Chen and Yan (2018) pointed out that international visibility of Chinese provinces have a positive effect on FDI inflows. Wakasugi (2005) highlighted the importance of the factors related to human resources as well as Salike (2016) who found that foreign investors take into account FDI destinations based mainly on the availability of human resources, but they take into account also the level of health and quality of people that work in scientific and technical fields. Other significant factors found by Salike (2016) are local market size, infrastructure and location. Rong et al. (2020) revealed that the employment effect of FDI is more significant in the east region. Bi et al. (2020) found that foreign direct investments locate in regions that are geographically and culturally close but economically distant from the home country.

Taking into consideration African regions, Gohou and Soumaré (2012) analyzed the impact of FDI on welfare and found that there is a strong positive relationship between FDI and welfare improvement at the aggregate level of Africa, but, at a regional level, the impact of FDI on welfare differs. The impact of FDI on poverty reduction is greater in the poorer and less developed host economies, but still, in absolute values, richer economies benefit in a greater extent than poorer ones. In Russia, the regional disparity of FDI is the result of differences in market size and resource endowments (Ladyaeva, 2009; Kayam et al., 2013), proximity to European market (Ladyaeva, 2009) and, as Ladyeva et al. (2013) found, the level of corruption, and, in general, the political culture, determine the location choice in Russian regions. As for the European experience in terms of foreign direct investments flows into development regions, we can also mention several studies (Cieślik, 2005; Crozet et al., 2004; Getzner & Moroz, 2020; Villaverde & Maza, 2015 or Völlmecke et al., 2016). By taking into consideration 260 EU NUTS 2 regions, over the period 2000-2006, Villaverde and Maza (2015) revealed that economic potential, labour market characteristics, technological progress and competitiveness represent determinants of FDI location.

They also highlighted that 64% of inward FDI is located in only 50 regions, which represents an increased degree of concentration. Gutiérrez-Portilla et al. (2019) showed that, in the case of Spain, the economic growth registered in a region is positively influenced by inward FDI in that region and also in the neighboring regions. Cieślik (2005) showed that the concentration of foreign capital participation within the regions of Polland is positively related to industry and service agglomeration, the road network and negatively related to unemployment rate. Despite these findings, Völlmecke et al. (2016), who analyzed 269 regions of European Union, revealed that FDI cannot sustain regional income convergence on its own, being conditional upon the level of human capital within regions. Getzner and Moroz (2020) revealed that, in the case of Ukraine, there are regional disparities regarding the flows of FDI and that the impact of foreign direct investments on the economic performance of the regions is limited.

Regarding Romania, Nistor (2012) analyzed the distribution of FDI stock and the degree of economic development of Romania's regions during 2003-2011 and concluded that, despite the positive economic impact of FDI at the national level, a closer look at the regional level reveals that the impact is not the same, with uneven economic development.

In order to carry out the research, in section 2, I will present some data about the eight regions, taking into consideration some indicators considered relevant in the literature, which will lead to outline the picture regarding their level of regional development and attractiveness for foreign investors. Section 3 includes the analysis of the evolution of the value of subscribed capital in companies with foreign participation in the share capital in Romania and of the number of companies with foreign participation. Section 4 presents the concluding remarks of our research.

2. DEVELOPMENT REGIONS OF ROMANIA – FACTS AND FIGURES

It is well known that many countries face economic regional disparities and implement policies and strategies aimed at reducing the existing discrepancies. As stated before, the literature provides empirical evidence that foreign investments are attracted by market size, among other factors. This is somewhat contradictory to the desire that, through foreign investment, the gaps between development regions should be reduced, as FDI will still be directed to the regions more economically developed. Gross Domestic Product (GDP) is an indicator that reflects the market size, the level of economic development and is used to measure economic growth. It is also a tool used to analyze regional economic disparities. By analyzing Figure 1, we notice that GDP per capita in Bucharest-Ilfov region is at a level far above that of the other regions, especially in the last decade. In this leading region, GDP per capita increased from 4000 euro per inhabitant in 2000 to 24200 euro per inhabitant in 2018, but has always been below the EU average.

According to Eurostat statistics, the GDP per capita EU average in 2000 was 19800 euro and increased to 31000 euro in 2018. West and Center regions are ranked in the following places according to GDP per capita. In the West region, GDP per capita increased from 1900 euro in 2000 to 10800 euro in 2018, which represents an increase of 468,4%.

The Center region faced an increase of 421% in the level of GDP per capita, i.e. from 1900 euro in 2000 to 9900 in 2018. The lowest level of GDP per capita, over the entire analyzed period, is in the North-East region, with a value of 1300 euro per inhabitant in 2000 and 6600 euro per inhabitant in 2018. The values recorded in the South-West Oltenia region are almost as small, i.e. 1500 euro in 2000 and 7900 in 2018. This reflects the fact that these regions are the least economically developed. In 2009, each region faced a slight decrease of GDP per capita as a result of global economic and financial crisis.

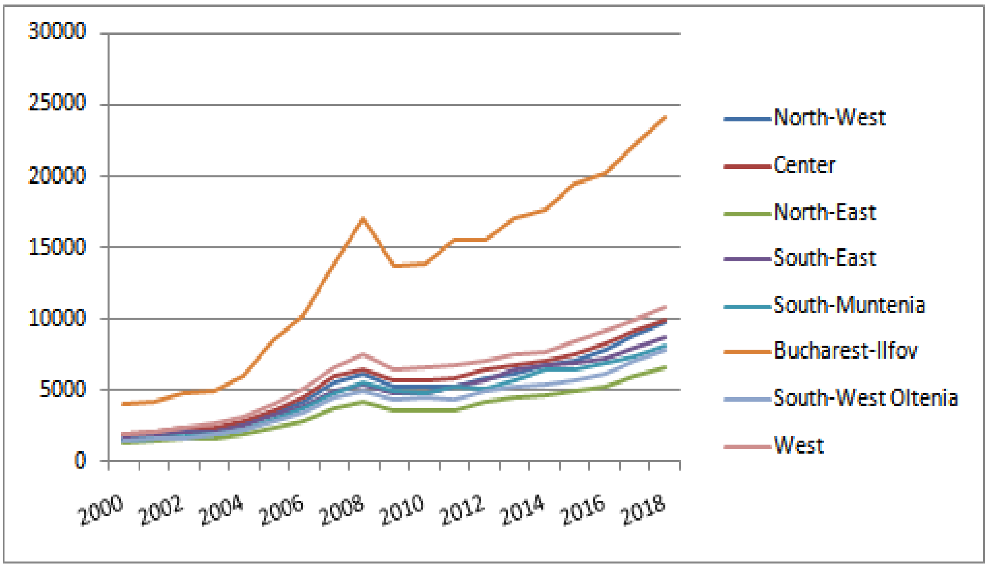

Figure 1. The evolution of GDP per capita, by regions of development, between 2000 and 2018 (expressed in euro per inhabitant)

Source: realized by the author based on Eurostat statistics, [Online], Available: http://ec.europa.eu/eurostat/data/database.

The availability of human resources is a factor that represents a determinant of FDI inflows, especially in what concerns the activity of non-hi-tech companies. On the other hand, hi-tech companies are interested in the capabilities and competencies of human resources. It is also true that higher unemployment rates can highlight imbalances and economic problems, which can lead foreign investors to consider, regarding location decision, less problematic areas. Also, foreign investment infusion into economy contributes to the creation of new jobs and, implicitly, to the reduction of unemployment. Bucharest-Ilfov, West, North-West and Center regions have the lowest unemployment rates (see Figure 2). On the contrary, in the last decade, South-West Oltenia registered the highest unemployment rates and that is why the authorities should conceive regional policies in order to increase the level of the occupation of population.

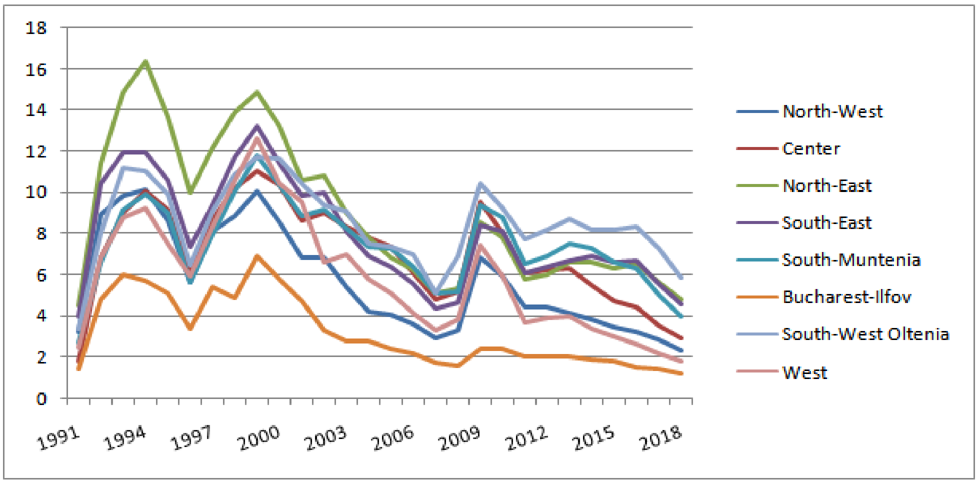

Figure 2. Unemployment rate in the development regions of Romania, between 1991 and 2018

Source: realized by the author based on INSSE statistics, [Online], Available: http://statistici.insse.ro:8077/tempo-online/.

Infrastructure is another factor considered important for foreign investors who want to develop profitable business in a country. However, looking from a regional perspective and taking into account the length of modernized roads, Bucharest-Ilfov is the region with the fewest kilometers of modernized roads. Probably the plus registered for other indicators compensate this minus, but the difference compared to the other regions is obvious.

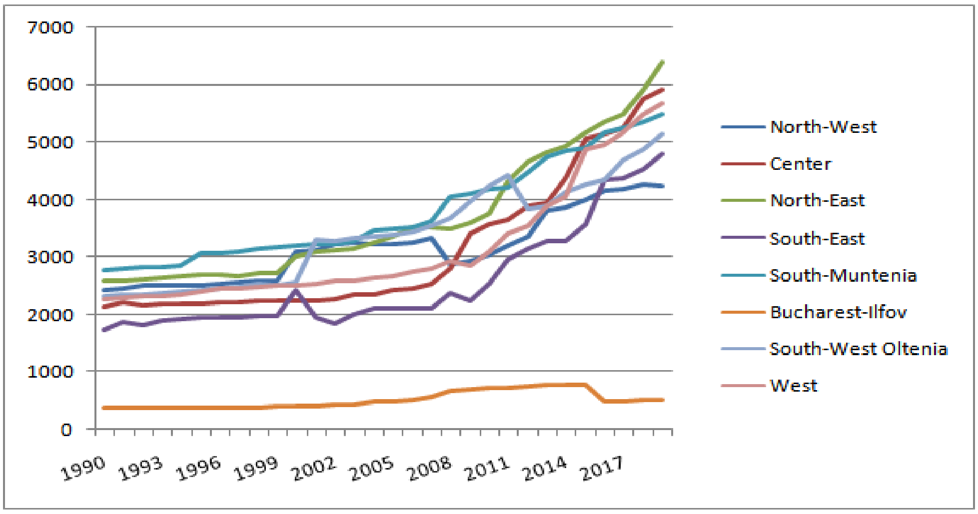

Figure 3.Length of modernized public roads, by development regions, between 1990 and 2019
Source: realized by the author based on INSSE statistics, [Online], Available: http://statistici.insse.ro:8077/tempo-online/.

The cost of labor, the expense of investors with the labor force employed is a factor taken into account in the location decision. Of course, the more skilled the labor force, the higher the costs will be. Also, foreign direct investments contribute to the growth and development of the area in which they are directed and, implicitly, to the level of salaries. As can be seen in Figure 4, the highest value of the average monthly nominal gross earning is recorded in the Bucharest-Ilvov region, the difference from the other regions being quite important.

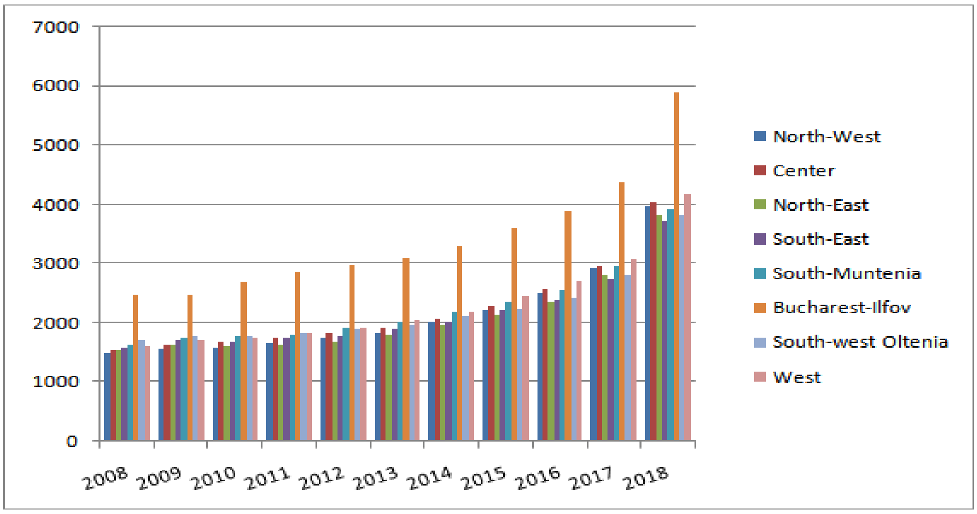

Figure 4. Average monthly nominal gross earnings, by development regions, between 2008 and 2018 (in lei)
Source: realized by the author based on INSSE statistics, [Online], Available: http://statistici.insse.ro:8077/tempo-online/.

3. REGIONAL DISTRIBUTION OF FOREIGN PARTICIPATION IN THE SHARE CAPITAL OF COMPANIES IN ROMANIA

Concerning foreign investments attracted in the last two decades by Romanian development regions, Figure 5 shows the evolution of the value of subscribed capital in companies with foreign participation in the share capital in Romania's development regions, between 2001 and 2019 (existing stock at 31 December). According to Romanian National Trade Register Office's report (2020) data regarding the subscribed share capital comprises capital subscriptions at registration of companies, during the reference period, to which were added capital increases and was subtracted the share capital of the companies deregistered from the Trade Register. As we can see, during the analyzed period, there was an upward trend in all the development regions in terms of the value of subscribed capital in companies with foreign participation. However, the gap between the Bucharest-Ilfov region and the rest of the regions is striking. We cannot ignore the major discrepancy that has formed and has accentuated during the last decade as the rhythm of growth was much higher in Bucharest-Ilfov region compared to the other regions. Practically, between the Bucharest-Ilfov Region and the other regions, we observe the same major discrepancy as GDP per capita (shown in Figure 1). Foreign investors have targeted Bucharest-Ilfov region, so the value of subscribed capital in companies with foreign participation increased from 4629513.3 thousand euro in 2001 (existing balance at 31 December) to 28883480.1 thousand euro in 2019 (existing balance at 31 December), which represents an increase of 523.9%. Except 2002 and 2011, when it recorded a slight decrease, we find that in the analyzed period there has been an obvious increase of the value of subscribed capital in companies with foreign participation. We realize that FDI has attracted more FDIs in the area, which has led to the Bucharest-Ilfov region being pushed far ahead of the other regions. At the opposite pole, and at a small difference from the North-East region, is the South-West Oltenia region where the value of subscribed capital in companies with foreign participation has risen from 329936.7 thousand euro in 2001 (existing balance at 31 December) to 1586315.8 thousand euro in 2019 (existing balance at 31 December). Although it represents an increase of 380.8%, the values on which the percentage is calculated are small.

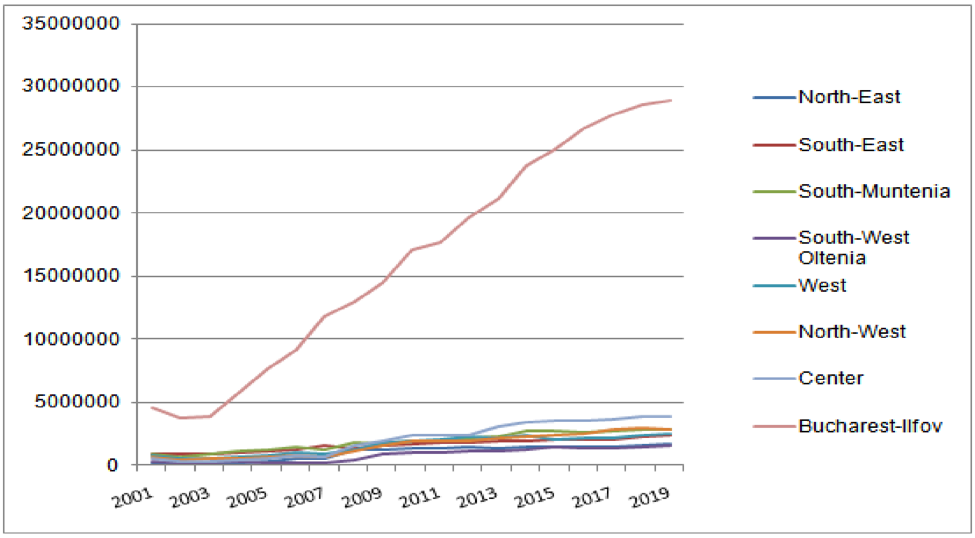

Figure 5. Value of subscribed capital in companies with foreign participation in the share capital in Romania, by development regions, between 2001 and 2019 (existing balance at 31 December, expressed in thousands of euro)

Source: realized by the author based on statistical reports of Romanian National Trade Register Office, [Online], Available: http://www.onrc.ro/index.php/ro/statistici?id=254.

By the number of companies with foreign participation in the share capital registered during the reference period, Bucharest-Ilfov region also dominates. By analyzing Figure 6, we can see clearly the same gap between the Bucharest-Ilfov region and the rest of the regions. Bucharest-Ilfov development region was and is the most desirable region of development for the foreign investors who want to invest in Romania. The number of companies with foreign participation in the share capital registered until 2001 was 46645 and increased to 114018 until 2019 (existing balance at 31 December for each year), which represents an increase of 144.4%. Although the effects of the economic and financial crisis have been acutely felt in our country, only in 2008 there was a decrease in the registered number of companies with foreign participation in the region. In the rest of the analyzed period, the rhythm was rising. In the West region of development, the second on the list of foreign investors' preferences regarding Romania, the number of registered companies with foreign participation in the share capital was 8191 until 2001 and increased to 28379 registrations until 2019 (existing balance at 31 December for each year), which represents an increase of 246.4%. South-West Oltenia is the least preferred by foreign investors, since until 2001 were 1864 companies registered and until 2019 only 6715 (existing balance at 31 December for each year) companies with foreign participation in the share capital. North-East region is also less preferred by foreign investors.

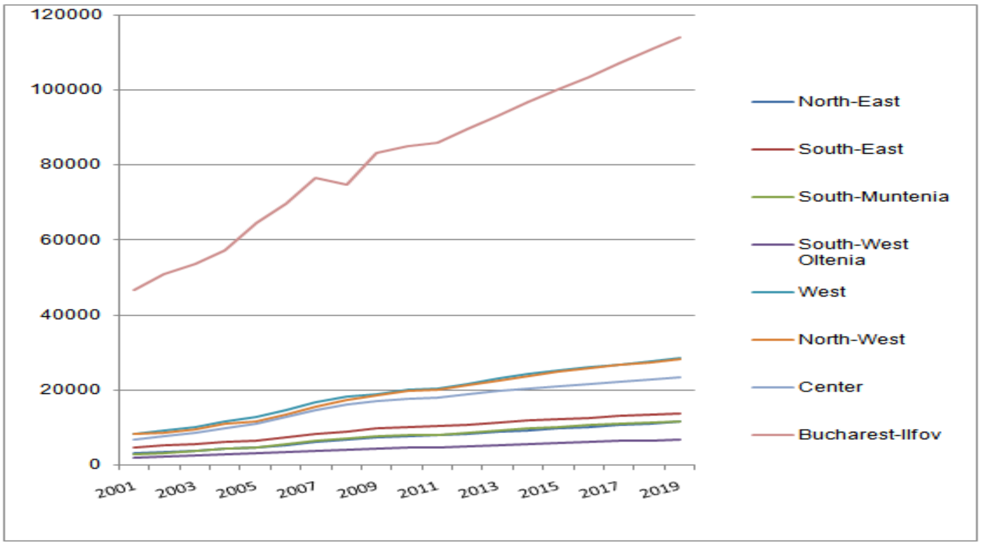

Figure 6. Number of registered companies with foreign participation in the share capital in Romania, by development regions, between 2001 and 2019 (existing balance at 31 December for each year)

Source: realized by the author based on statistical reports of Romanian National Trade Register Office, [Online], Available: http://www.onrc.ro/index.php/ro/statistici?id=254.

Over the period 1991-2019, Bucharest-Ilfov region dominated with regard of the inflows of FDI, both in terms of number of companies registered and of the value of subscribed capital. West and North-West regions are placed on the second, respectively third position by the number of companies registered. By the value of subscribed capital, there are other regions in the hierarchy, as the second position is occupied by the Center region and the third by South-Muntenia region. However, we notice that there is a major gap between Bucharest-Ilfov region and the rest of the regions. Almost half of the foreign participations in the share capital were made in companies from the Bucharest-Ilfov region and more that half of the total value of subscription is allocated to this development region. On the last place, both in terms of number of companies registered and of the value of subscribed capital, is found South-West Oltenia region.

Table 1. Companies with foreign participation in the share capital and the value of the subscribed capital, by development regions, between 1991 and 2019 (existing balance at 31 December 2019)

Development regions	Hierarchy by:	
	Number of companies	Value of the subscribed capital
North-East	7	7
South-East	5	6
South-Muntenia	6	3
South-West Oltenia	8	8
West	2	5
North-West	3	4
Center	4	2
Bucharest-Ilfov	1	1

Source: realized by the author based on Romanian National Trade Register Office's report *"Companies with foreign participation in the share capital. Summary statistics of the National's Trade Register's Data"*, May 2020 report, [Online], Available: http://www.onrc.ro/index.php/ro/statistici?id=254.

4. CONCLUSIONS

Our research focused on revealing some data about Romania's development regions, on the regional distribution of the value of the subscribed capital (as a part of FDI) and of the number of companies with foreign participation in the share capital in Romania, by development regions. By taking into consideration several development indicators, our study emphasizes the existing regional disparities. Then, using data that covered the period 2001-2019, our research revealed, mainly, that there is a major gap between Bucharest-Ilfov region and the rest of Romania's develoment regions and also between West and East parts of Romania. Bucharest-Ilfov region attracted more than half of the value of subscribed capital in companies with foreign participation. The second position, in terms of the value of subscribed capital, is occupied by the Center region and the third by South-Muntenia region. Regarding the number of companies with foreign participation in the share capital, registered in the reference period, almost half of the total number is located in Bucharest-Ilfov region. West and North-West regions are placed on the second, respectively third position. South-West Oltenia development region is placed on the last place, both in terms of the number of companies registered and of the value of subscribed capital. The major gap between the Bucharest-Ilfov region and the rest of the regions has accentuated during the last decade, the rhythm of growth being much higher in Bucharest-Ilfov region compared to all the other regions. Since foreign investments tend to concentrate in the capital city's region, in the case of Romania, this has led to increased interregional disparities. We observed the same major disparity as in the case of GDP per capita. Our policy recommendation is for the central and local authorities to devise a coherent and efficient strategy with the aim of directing foreign investments to regions other that Bucharest-Ilfov, which would reduce the existing gaps. Attracting more foreign investments, especially in the least developed regions, creates the premise for the growth and development of the area by increasing capital investment, creating new jobs, transferring new and improved technology.

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