

## **ANALYSIS OF FOREIGN PARTICIPATION IN THE SHARE CAPITAL OF COMPANIES FROM THE COUNTIES OF NORTH-WEST REGION OF ROMANIA**

**Mariana Sehleanu**

*Department of Economics and Business, Faculty of Economic Sciences, University of Oradea, Oradea, Romania*  
[marietasehleanu@gmail.com](mailto:marietasehleanu@gmail.com)

**Abstract:** *Foreign investments represent a well known topic in the literature which has resulted from their economic, financial, technological, managerial and social contribution at the national and regional level of the receptive country. North-West region is part of the richer and more developed regions of Romania. Based on the statistical data provided by NTRO (2018, p.24), North-West region of Romania is ranked on the third position by the number of companies with foreign participation in the share capital and on the fourth position in terms of the value of the total subscribed capital in companies with foreign participation. The main objective of our study is to analyze the distribution of the number of registered companies with foreign participation in the share capital between the counties of North-West region of Romania and also to analyze the evolution of the value of subscribed capital in companies with foreign participation in the share capital within the counties of this region. We also analyzed the evolution of some selected indicators that we consider relevant for assessing the level of economic development of the counties located in North-West region of Romania. After pointing out the existing disparities in the level of development of the region's counties, an important finding of our study is that there are major intra-regional disparities regarding both the value of subscribed capital and the number of registered companies with foreign participation in the share capital. There is a clear separation between the counties Cluj, Bihor and the rest of the region's counties. Between 1991 and 2017, Cluj and Bihor counties attracted the largest number of foreign investors and recorded the highest values of the total subscribed capital in companies with foreign participation. At the opposite pole there are Bistrița-Năsăud and Sălaj counties. This paper also provides a ranking of North-West region's counties according to the two aspects regarding foreign participation, subject to analysis, i.e. the number of registered companies with foreign participation in the share capital and the value of subscribed capital.*

**Keywords:** foreign subscribed capital, companies, Romania, North-West region of development, counties.

**JEL classification:** F21.

### **1. Aims and theoretical framework**

Foreign investments represent a wellknown topic in the literature which has resulted from their economic, financial, technological, managerial and social contribution at the national and regional level of the receptive country. Due to the importance and positive effects of foreign investments, especially in the countries and regions engaged in the process of catching up the most developed economies, many researches have been conducted on this topic. Studies were carried out on the country level-basis but also on a regional-level basis. Otherwise, Sethi et al. (2003) stated that multinational enterprises often evaluate prospective FDI destinations at the regional level, rather than on a single-country basis.

There are a number of studies that found that FDI stimulate economic growth in the host country (Chan et al., 2014; Iamsiraro and Ulubaşođlu, 2015; Pegkas, 2015). Alfaro et al. (2010) stated that FDI determines growth especially in the case of financially developed economies and, to a lesser extent, in under-developed ones. On the other hand, Carkovic and Levine (2002) found that FDI inflows have no influence on economic growth. Kapustina, Lipkova and Falchenko (2016) also found that FDI's impact on economic growth in the Sverdlovsk region and in the Russia is weak. Instead, they found that the most important factor that has a positive influence on the growth of gross regional product and gross domestic product is represented by domestic investment in fixed assets.

Kandogan (2012), referring to USA regions (states), revealed that FDI location at regional level is driven by strategic determinants such as search for market, efficiency, and to a lesser extent, by strategic assets, and that the most important factor is the agglomeration economies.

In China's case, Ouyang and Fu (2012), based on data regarding 277 Chinese cities over the period of 1996–2004, found that inter-regional spillovers from FDI concentrated in coastal cities of China are significant and have a positive effect on the growth of inland cities. Xu and Sheng (2012) revealed that China faces significant positive spillovers of FDI that are likely to be regional, so domestic firms benefit more from the presence of foreign firms in the same sector within the same region. Lessmann (2013) wrote about the fact that, in China, FDI has increased regional inequalities after the economic reforms in the 1980s, but, through the government intervention, the effect has vanished since the end of the 1990s. This finding is supported by Huang and Wei (2016) who found that the eastern (coastal) region dominates with regard of FDI, but the relative gap between this region and the rest of China is diminishing. Clusters of FDI spread from eastern region to central and western showing the trend of FDI convergence among regions. Using data on 244 Chinese cities for the period from 2004 to 2011, Wang, Ning and Zhang (2017) empirically showed that FDI spillovers have a positive effect on local technological upgrading in local and neighbouring cities.

Fallon and Cook (2010) found that, in UK, regional and national (not EU-level) factors, related to different strategic determinants, help determine the regional distribution of FDI inflows, and its inter-regional variation.

Using a data set of regional inequalities covering 55 countries with different stages of development, Lessmann (2013) found that FDI inflows increase regional inequality in low and middle income countries but not in high income economies. Maza and Villaverde (2015) proposed a new FDI Potential Index, in order to analyze the attractiveness at the EU regions in terms of foreign investments. Based on factors like economic potential, market size, labour situation, technological progress, labour regulation and competitiveness, their analysis showed that the most attractive regions are located in the UK and the less attractive are in Greece. Along with most of the Greek regions, some regions in Poland, Bulgaria and Romania (South-East and North-East regions) are also less attractive.

In Spain, Gutiérrez-Portilla et al. (2016) showed that FDI flows at regional and sectoral level are marked by high volatility and are highly geographically concentrated. Also, they found as FDI determinants the market size, the level of human capital in interaction with wages and the own characteristics of Madrid capital.

Dorożyński, Świerkocki and Urbaniak (2015) studied the factors that attract foreign capital in the Province of Lodz in Poland and their results showed that the specific characteristics of the province aren't that important. Instead, foreign investors are interested in relatively cheap and skilful labour that will lower the production costs. They also found that investment incentives were less important in what concerns FDI inflows into the communes and counties of the Province of Lodz and that poor transport infrastructure and an uninteresting

social infrastructure discouraged foreign investments. They concluded that FDI inflows deepened intra-regional disproportions.

Concerning Romania, Sirbu (2014) argued that it faces serious problems in reducing disparities between the richest and the poorest regions. Dornean and Oanea (2015) found that human capital and economic stability have the highest impact on FDI at the level of the regions of development. Other determinants are the total number of graduated persons, unemployment rate, GDP growth, net salary and kilometers of modernized road. Regarding North-West region of Romania, Sehleanu (2017b) identified the number of graduates, GDP and R&D expenditure as important factors of influence on the value of subscribed capital in companies with foreign participation in the share capital, while the influence of labour cost is moderate.

Romania comprises eight development regions, i.e. Bucharest-Ilfov, Center, West, North-West, South-Muntenia, South-East, South-West Oltenia and North-East. North-West region is part of the richer and more developed regions of Romania. This region includes six counties, namely: Bihor, Bistrița-Năsăud, Cluj, Maramureș, Satu Mare and Sălaj. Based on the statistical data provided by Romanian National Trade Register Office (NTRO, 2018, p.24), North-West region of Romania is ranked on the third position by the number of companies with foreign participation in the share capital and on the fourth position in terms of the value of the total subscribed capital.

The objective of our study is to analyze the distribution of the number of companies with foreign participation in the share capital between the counties of North-West region of Romania and also to analyze the evolution of the value of subscribed capital in companies with foreign participation within this region. We intend to find the answers to the following questions: are there differences between the counties of North-West region of Romania concerning the ability to attract foreign investments? is there a concentration of foreign participation in the share capital of companies or is the inter-counties distribution balanced? and which are the counties that enjoy the most foreign participation in the share capital of companies? Thus, we will show which counties attract the largest number of foreign investors and which counties need more support from the authorities in order to become more desirable for investors.

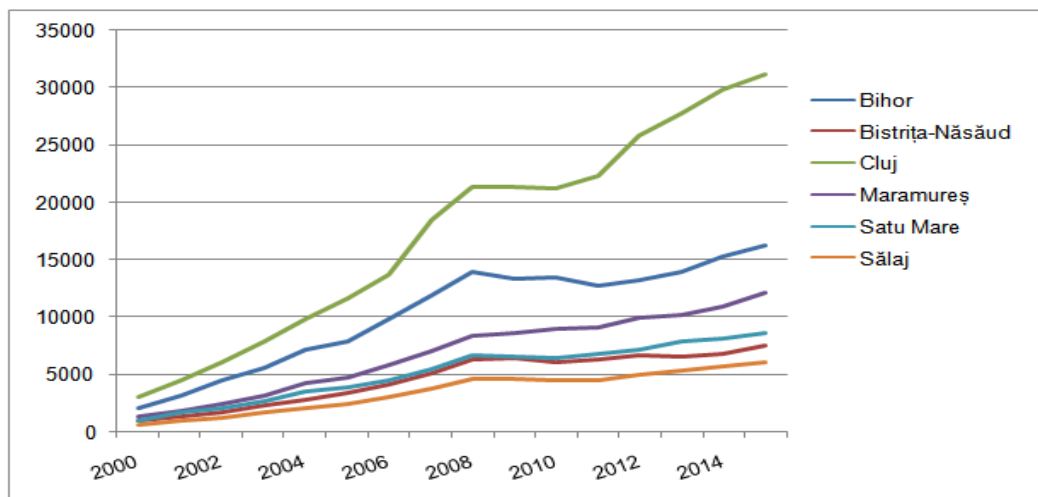
Our research is based on a systematic analysis of the data provided by Romanian National Trade Register Office and Romanian National Institute of Statistics. We will undertake a comparative analysis of the statistical data in order to identify the level at which each county is positioned in terms of the variables considered, i.e. those reflecting the degree of economic development, respectively those reflecting the level of foreign participation in the share capital of companies.

## **2. The counties of North-West region of Romania – some data**

The fact that Romania faces inter-regional economic and social disparities is no longer a novelty. There are disparities between the western part of the country and the eastern part of the country. Also, there is a gap between Bucharest-Ilfov region and the other development regions. Bucharest-Ilfov region, which dominates in all aspects, is the most developed one. But what is the situation at the intra-regional level, more precisely, regarding the counties of the North-West development region? Further, we will analyze the evolution of some selected indicators that are relevant for assessing the level of economic development of the counties located in North-West region of Romania.

The level of GDP is very important when analyzing the level of economic development of a region. If we look closely at Figure 1, we notice that in the North-West region, Cluj County has the highest GDP level (3062 millions of lei in 2000 and 31178.2 millions of lei in 2015), followed at a fairly large distance by Bihor County (2134.3 millions of lei in 2000 and 16218.9

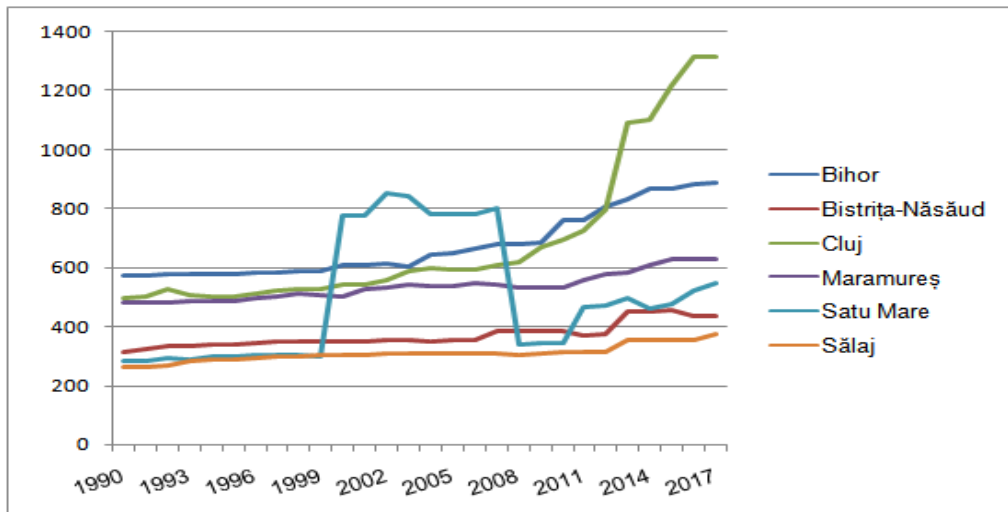
millions of lei in 2015). The gap between Cluj County and the other counties has accentuated in the last decade. The difference between Cluj County, which has the highest level of GDP, and Sălaj County, which recorded the lowest level throughout the analyzed period (678.8 millions of lei in 2000 and 6087.1 millions of lei in 2015), is significant.



**Figure 1:** The evolution of GDP of the counties of North-West region of Romania, between 2000 and 2015 (expressed in millions of lei)

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

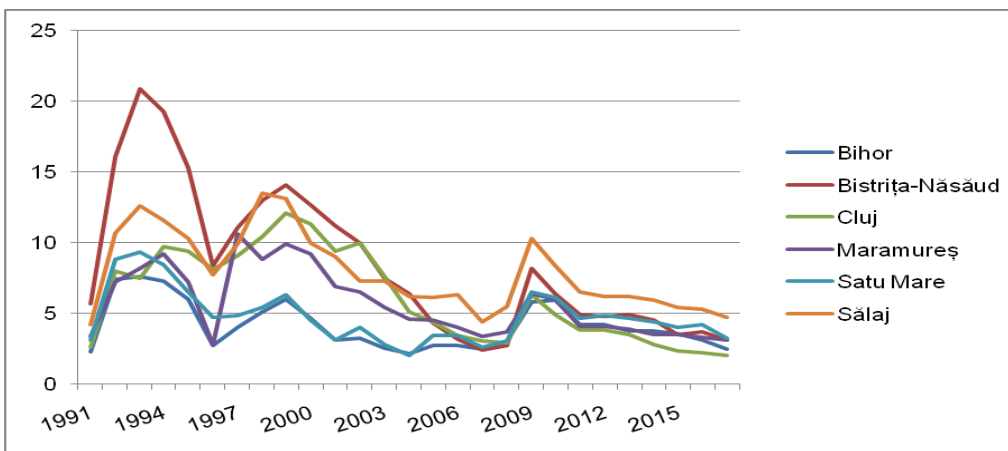
When it comes to infrastructure, we can not underestimate its important role in attracting foreign investors. By realizing time and cost savings, a more developed infrastructure is an asset that investors take into account when they choose the area to invest in, as reflected in the literature (Dornean and Oanea, 2015; Sehleanu, 2017a). According to the data provided by Romanian National Institute of Statistics, the North-West region had 2412 kilometres of modernized road in 1990 (of a total of 10652 kms of road in the region), 3089 in 2000 (of the total of 11566 kms of region's road) and 4187 in 2017 (of the total of 12713 kms of region's road). Figure 2 shows that, between 1990 and 2017, Cluj and Bihor counties had the largest length of modernized roads, except for the period 2000-2007 when Satu Mare County registered a higher number of kms of modernized road. A real problem, both in the country and in the region, is represented by the small number of kilometers of the highway.



**Figure 2:** The evolution of the length of modernized public roads in the counties of North-West region of Romania, between 1990 and 2017

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

From the perspective of foreign investors, a higher unemployment rate may reflect some imbalances, but, at the same time, it may indicate the availability of the workforce. Figure 3 shows that, between 1991 and 2017, Bistrița-Năsăud and Sălaj Counties recorded the highest unemployment rate at the level of the North-West region.



**Figure 3:** The evolution of the unemployment rate in the counties of North-West region of Romania, between 1991 and 2017

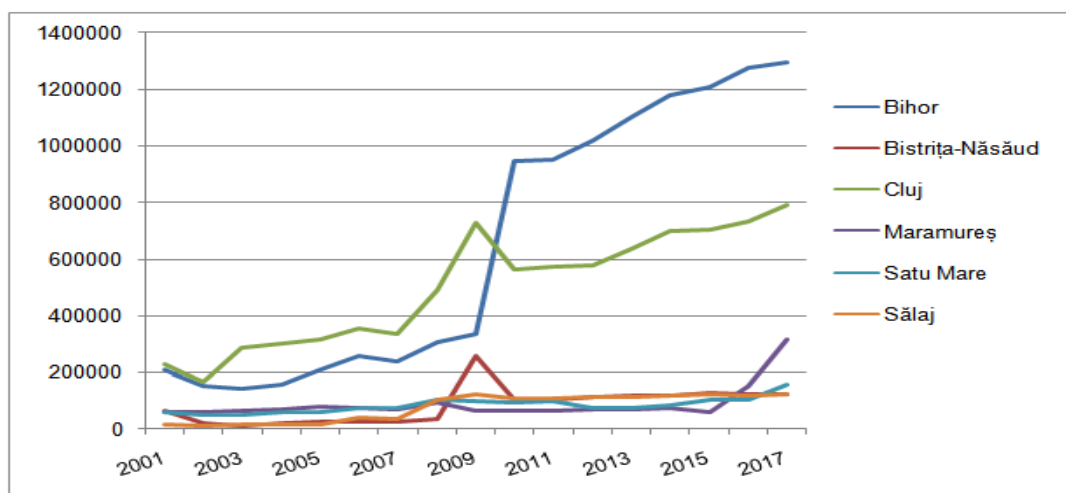
Source: realized by the author based on INSSE statistics, [Online], Available: <http://statistici.insse.ro:8077/tempo-online/>.

Until 2003, Cluj County also recorded relative high values of the unemployment rate, but subsequently decreased significantly, with the exception of 2009 and 2010. In fact, in 2009 and 2010 all the six counties recorded higher values of unemployment rate as a result of bankruptcy and decline in the activity of many companies after the outbreak of the global economic and financial crisis.

### 3. Foreign participation in the share capital of companies in the counties of North-West region of Romania

Foreign investments can help mitigate development gaps between regions, but it must be taken into account the fact that foreign investors are attracted by the level of economic development of an area, as they pay attention to the market size, purchasing power of consumers, level of education, infrastructure etc.

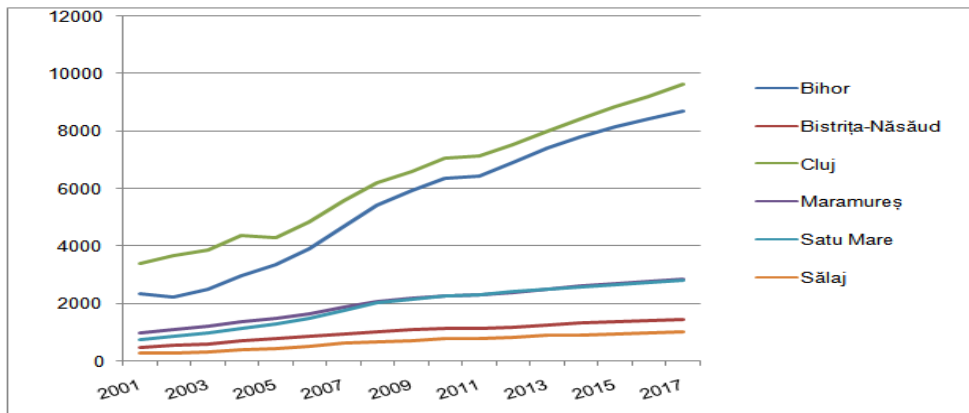
Figure 4 reveals the evolution of the value of subscribed capital in companies with foreign participation in the share capital in the counties of North-West region of Romania (the existing balance at December 31 each year). Data on subscribed share capital include capital underwritings at the time of registration of companies during the reference period, plus capital increases and minus the subscribed capital of the companies radiated from the Trade Register during the reference period. As can be seen, until 2009, Cluj County held the supremacy in terms of the value of subscribed capital. Instead, starting with 2010 and until present, Bihor County, which was placed second until then, recorded the highest values of the value of subscribed capital at the region level. In Cluj County, the value increased from 230531.1 thousand euros in 2001 (existing balance at 31 December) to 789095.4 thousand euros in 2017 (existing balance at 31 December). However, in 2010, the difficult economic and financial conditions led to a decrease of the existing balance of subscribed value and only in 2016 the value registered in 2009 was exceeded. In the case of Bihor County, we note that until 2009 there were no major increases, i.e. in 2001 the value of subscriptions recorded 208597.4 thousand euros (existing balance at 31 December) and in 2009 it increased to 335728.2 thousand euros (existing balance at 31 December). Instead, 2010 has generated a boost of the value of subscriptions that reached 948309.4 thousand euros (existing balance at 31 December). The rising trend has continued in the years to come, such as in 2017 the subscribed value reached 1295583.7 thousand euros (existing balance at 31 December).



**Figure 4:** The evolution of the value of subscribed capital in companies with foreign participation in the share capital in the counties of North-West region of Romania, between 2001 and 2017 (existing balance at 31 December each year, expressed in thousand euros)  
Source: realized by the author based on the statistical reports of Romanian National Trade Register Office, [Online], Available: <http://www.onrc.ro/index.php/ro/statistici?id=254>.

By analyzing Figure 4, we can observe a certain separation of the counties of the region in two groups: the leading group comprising the counties of Cluj and Bihor, and the group

comprising the other counties. Starting with 2010, we notice that a major gap has been formed between the two groups of counties in the North-West region of Romania. Thus, knowing that there are disparities between the regions of the country in terms of foreign investments attracted, we find that these disparities are also intra-regional. Bistrița-Năsăud, Maramureș, Satu Mare and Sălaj have registered lower values of foreign subscribed capital compared to Cluj and Bihor counties, throughout the analyzed period.



**Figure 5:** The evolution of the number of registered companies with foreign participation in the share capital in the counties of North-West region of Romania, between 2001 and 2017 (existing balance at 31 December each year)

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

In terms of the number of companies with foreign participation in the share capital, we can observe the same gap between the counties Cluj, Bihor and the other counties (see Figure 5). Throughout the analyzed period, Cluj County was the leader that attracted the largest number of investors, which is no surprise since it represents a large university center that provides qualified labor force, it benefits from an appropriate infrastructure and the level of GDP is the highest in the region. If until 2001 there were 3382 registered companies with foreign participation in the share capital in Cluj County, until 2017, the number of companies registered reached 9627 (existing balance at 31 December for each year). Placed on the second position, Bihor County recorded 2382 companies with foreign participation in the share capital registered until 2001 and 8695 until 2017 (existing balance at 31 December for each year).

During the analyzed period, Sălaj County attracted the fewest foreign investors, the number registered companies with foreign participation in the share capital being 268 until 2001 and only 1021 until 2017 (existing balance at 31 December each year). Neither Bistrița-Năsăud County can boast great performance in this respect. There were 476 companies with foreign participation in the share capital registered until 2001 and their number grew to just 1439 until 2017 (existing balance at 31 December each year). It seems that foreign investors are not very attracted by these counties. This makes it imperative for the authorities to make efforts in order to develop a strategy to increase the ability of attracting new investors. It is necessary to identify the factors considered important by foreign investors and to improve the aspects regarded by investors as weak points of the area.

**Table 1:** Companies with foreign participation in the share capital and the value of the subscribed capital in the counties of North-West region of Romania, between 1991 and 2017 (existing balance at 31 December 2017)

Regions of economic development	Number of companies	The value of the subscribed capital (in thousands lei –national currency)	Hierarchy by:	
			Number of companies	Value of the subscribed capital
Romania	215.651	168.877.712,1		
North-West	26.459	8.574.536,1		
Bihor	8.695	2.779.357,4	2	1
Bistrița-Năsăud	1.439	477.631	5	6
Cluj	9.627	2.737.651	1	2
Maramureș	2.869	1.487.798,6	3	3
Satu Mare	2.808	591.567,9	4	4
Sălaj	1.021	500.530,2	6	5

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", October 2018 report, [Online], Available: <http://www.onrc.ro/index.php/ro/statistici?id=254>.

Between 1991 and 2017, Cluj and Bihor counties attracted the largest number of foreign investors and recorded the highest values of the subscribed capital in companies. There is a clear separation between the counties Cluj, Bihor and the rest of the region's counties. Table 1 provides a hierarchy of the North-West region's counties according to the two aspects regarding foreign participation, subject to analysis, i.e. the number of registered companies with foreign participation in the share capital and the value of subscribed capital in companies with foreign participation.

Of the six counties of the region, Sălaj County attracted the smallest number of foreign investors. Regarding the value of the subscribed capital (existing balance at 31 December 2017), Bistrița-Năsăud County is on the last position of the ranking, but the difference from Sălaj County is very small.

#### 4. Conclusion

This study analyzed, in the beginning, the evolution of some selected indicators that reflect, to a certain extent, the level of development of the counties of North-West region of Romania. The data indicate that Cluj and Bihor Counties are the most developed in the region, while, at the opposite pole, there are the counties of Sălaj and Bistrița-Năsăud. Further, we studied the distribution of the number of registered companies with foreign participation in the share capital between the counties of North-West region of Romania and the evolution of the value of subscribed capital in companies with foreign participation (which represents an important part of FDI inflows) within this region, between 1991 and 2017. By analyzing the data, we found that disparities concerning foreign investments attracted exist also at an intra-regional level. It seems that foreign investors prefer especially certain counties of the region. Thus, we found that a gap has formed between the counties Cluj, Bihor and the rest of the region's counties. In terms of the number of registered companies with foreign participation in the share capital, Cluj County is the leader, followed by Bihor County. The rest of the counties are placed at a great distance from the two leading counties. Of the six region's counties, Sălaj County is the least preferred by foreign investors. Of course, the number of companies with foreign participation in the share capital is an indicator of the attractiveness of the area for foreign investors. In terms of the value of



subscribed capital in companies with foreign participation, Bihor County is placed on the first position, followed by Cluj County. As mentioned above, the difference from the rest of the counties is considerable for this variable too. Bistrița-Năsăud County is placed on the last position regarding the value of subscribed capital in companies with foreign participation, but at a small difference from Sălaj County. It is obvious that the authorities must consider an efficient strategy to increase the attractiveness of the counties less desired by foreign investors. A detailed analysis can identify the aspects that matter the most in the decision of foreign investors to initiate businesses in a county and on which the authorities have to act.

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### **Bio-note**

*Mariana Sehleanu* graduated the University of Oradea in 2006, earned her PhD in 2011 and graduated postdoctoral studies in 2015 in the same university. She is now Lecturer in the University of Oradea, Faculty of Economic Sciences, Department of Economics and Business. She has written numerous journal articles, a book as single author and contributed to several other textbooks. Her research interests include Economics, Firm strategy, Mergers and acquisitions of enterprises etc.