

Impact of the Covid-19 Pandemic on FDIs in Romania: a comparative analysis

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Abstract. *This paper aims to explore the impact of the COVID-19 pandemic on Foreign Direct Investment (FDI) inflows into Romania, as well as analyze the strategies of foreign investors in response to the unprecedented global health crisis. Through an exhaustive analysis, we tried we delve into the extent to which the pandemic has influenced the volume of inflows and stocks of FDI in Romania. Utilizing a mix of qualitative and quantitative data, the study identifies significant shifts in investment patterns, highlighting a marked decline in FDI inflows during the peak period of the pandemic. Furthermore, we analyzed the perception of the foreign investors present in Romania regarding the impact of the pandemic on the business environment and also the changes by which they had to adapt their strategies.*

The findings suggest that the COVID-19 crisis has not only presented challenges but also opportunities for redefining investment priorities and strengthening economic resilience.

Keywords: foreign direct investment, pandemic of COVID-19, investors strategies.

JEL Classification: F21, O1.

Introduction

The preceding two years have been characterized by unprecedented challenges in the worldwide economic landscape. The outbreak of the COVID-19 pandemic in 2020 affected all aspects of our society, bringing challenges for economies globally. This event also caused changes in the trajectory of global economic progress, and the revival of the post-pandemic economy was affected by the simultaneous conflict in Ukraine.

During this period, sustaining the ongoing investments, both in the public and private sectors, is crucial, while government authorities play a pivotal role in bolstering the economy by fostering an environment characterized by stability, transparency, and predictability.

In this regard, the COVID-19 pandemic that emerged in 2020 created a worldwide crisis that has been testing the resilience and adaptability of all economies. It affected all sectors, revealed vulnerabilities, and required quick responses from the governments and industries. Romania, like other countries, was not immune to this crisis and experienced significant changes in its economic situation. As the world faced the challenges of a public health crisis and economic instability, FDI in Romania became a matter of interest and concern.

The role of FDI in economies consists of providing companies with examples of good practices, as well as bringing know-how, technology transfer, and managerial culture. Furthermore, FDI has a significant impact on job creation.

If we look at the importance of FDIs for developing and transition economies like Romania, as evidenced by numerous studies, FDIs are an important source of capital and economic development is aided by their funding, which helps finance large-scale infrastructure projects and other capital-intensive activities that may not be able to be funded by local markets. Also, as we mentioned above, FDIs often involve the transfer of technology and managerial culture from developed to developing countries. This transfer is vital for the modernization of local industries and can lead to increased productivity and competitiveness in the global market, a fact that has been illustrated by the large investors who have come to the Romanian market in the past 25 years. Thus, if we analyze the National Bank reports on foreign direct investments, we can see that over the course of 25 years, FDI in Romania experienced a sixfold increase in annual value, reaching the threshold of 100 billion euros in 2022.

In addition to the two points that emphasize the importance of FDIs for Romania, we would add two other major points. In the first place, we would refer to the pivotal role of FDI in integrating developing and transition economies in the global economy. In this regard, by attracting foreign investors, these economies gain access to new markets and business networks, which can lead to increased trade and further investment opportunities. Secondly, FDI can have a significant role in the policy and institutional development of a society. The presence of foreign investors can act as a catalyst for improvements in local governance and business practices. Countries often reform their legal and regulatory frameworks to attract and accommodate FDI, which can lead to a more conducive business environment overall. A concrete example of this consists of the most recent normative act regarding the examination of the FDI that has to be transposed into the Romanian

legislation - EU Regulation 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investment in the Union. It represented a necessity in order to establish a framework for the examination of foreign direct investment in the Union.

If we look at the particular case of Romania in terms of the importance of attracting FDI, considering its history and the shift from a centrally controlled economy to a market-driven economy, FDI has been instrumental in driving economic reforms, modernizing industries, and integrating the country into European and global markets.

As regards the impact of Covid-19 on FDI, we will point out three aspects that we consider important to mention: the immediate effects of the pandemic, the influence of the pandemic on FDI inflows, and the operational challenges for existing FDI. In terms of immediate effects, the pandemic of Covid-19 brought new challenges across the world by enforcing lockdowns and travel restrictions. These measures, while necessary for public health, have had a significant impact on business operations, leading to delayed investments, disrupted business plans, and uncertainties in international trade and investment flows.

On the other hand, the challenges that the pandemic brought to the FDI inflows in Romania led to a reduction in investment due to economic uncertainty, a pause/reconsideration in the investors' decisions regarding investments and shifts in the types of sectors attracting investment.

Due to the pandemic, foreign investments in Romania encountered various operational challenges. These challenges included the difficulty of managing business operations across borders, disruptions in local operations caused by lockdowns, and the urgent need to adapt to new safety regulations and rapidly evolving market conditions.

This article has the major objective to explore the dynamics that unfolded due to the pandemic evaluating its influence on FDI in Romania. Through a comparative analysis, we will try to bring the effects of the pandemic to the Romanian economy by comparing pre-and post-pandemic FDI trends. This study examines the trends, challenges, and opportunities that emerged during this period, with the goal of providing a nuanced understanding of how the pandemic has left its mark on Romania's FDI landscape.

The primary question that inspired us to start writing the article was "How has the COVID-19 pandemic affected the overall volume of FDI inflows into Romania?". Another question that we will try to respond to in our analysis is "How did the strategies of foreign investors in Romania change in response to the pandemic?".

Literature review

The literature concerning the impact of the COVID-19 pandemic on FDI in global economies is extensive, encompassing various regions and states. Several perspectives range for example from analyzing the impact of the COVID-19 pandemic on China's FDI (Jing Fang, Alan Collins, Shujie Yao, 2021), to the relationship between the COVID-19 pandemic, FDI, and gross domestic product (GDP) in Indonesia (Maman Setiawan, Ferry

Syarifuddin, 2022), and to the impact of the COVID-19 pandemic on FDI in Nepal from South Asian perspectives (Manoj Kumar Chaudhary, Rudra Prasad. Ghimire, Dinesh Mani Ghimire, 2020).

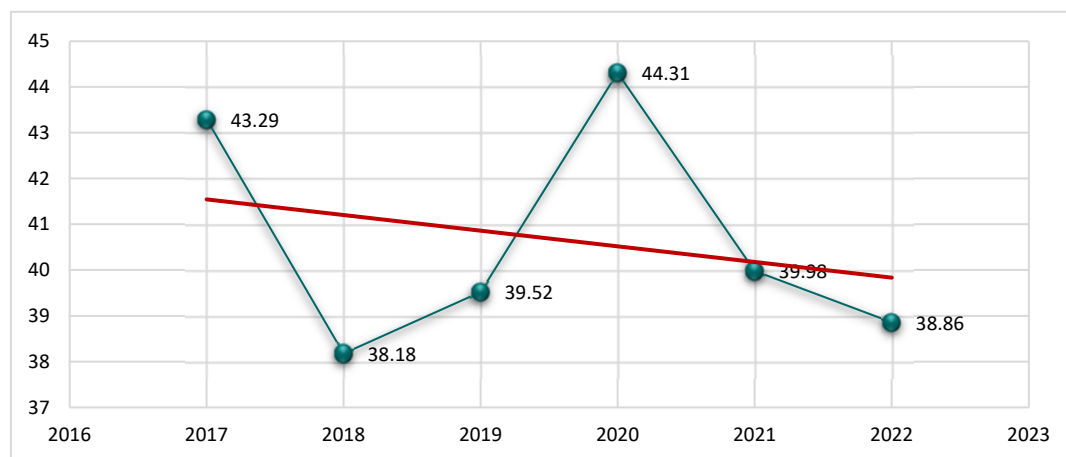
Although there are many studies in specialized literature regarding FDI, we would point out that the most significant theories and principles can be drawn after the 1960s, as the phenomenon of globalization began to emerge and countries started introducing economic liberalization and trade liberalization policies, and the expansion of foreign direct investment has risen significantly.

Ciobanu, Sova, and Popa (2020) conducted an analysis of the impact of the COVID-19 pandemic on FDI in Central and Eastern European (CEE) countries and the impact of FDI on GDP growth. Their study confirms that FDI inflows positively correlate with economic growth, suggesting foreign capital is beneficial despite concerns about its impact on local markets. Utilizing panel data regression models, it reveals that FDI inflows are significantly linked to GDP growth, with a delay in impact observed. The research also discusses how the COVID-19 crisis might lead to a reduction in FDI inflows, potentially resulting in economic contractions in CEE economies, highlighting the need for strategies to stimulate FDI inflows and adapt to new macroeconomic conditions caused by the pandemic.

Hysa, Imeraj, Feruni, Panait, and Vasile (2022) examined the impact of the COVID-19 pandemic on FDI flows in European countries. The analysis focused on how the pandemic affected the determinants of FDI outflows, such as GDP growth, unemployment, interest rates, inflation, and business confidence. Using data from 22 European countries, the research was based on an econometric analysis in order to explore the relationship between these economic factors and FDI outflows during the first year of the pandemic. The paper's objective was to provide insight into how COVID-19 cases and deaths, along with various economic indicators, had an impact on FDI dynamics in Europe.

The COVID-19 pandemic impact on the overall volume of FDI inflows into Romania

Figure 1. FDI stocks in Romania (% of GDP) (2017-2022)



Source: UNCTADSTAT.

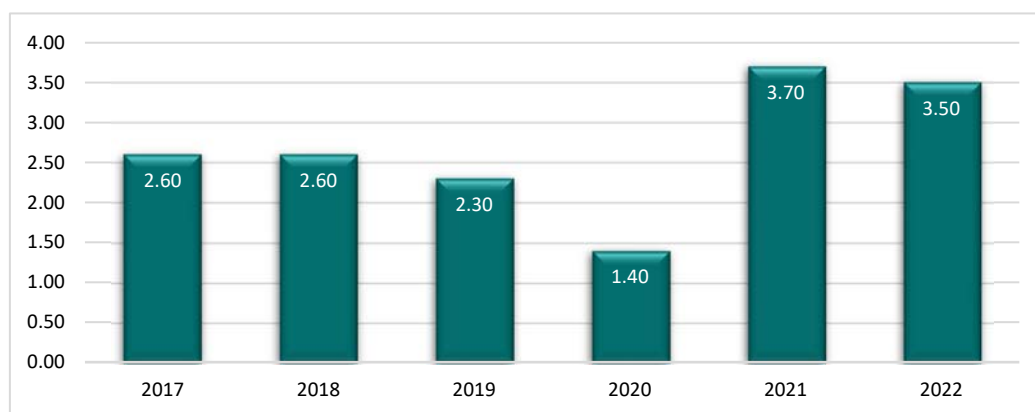
In Figure 1 we analyzed the FDI stocks in Romania as a percentage of GDP over 6 years, having 1990 as a reference year. As we can see, Romania registered a fluctuating trend in FDI stocks, indicating that the FDI % of GDP has not been consistent. For example, in 2016, the FDI stocks were at 43.29% of GDP, in 2017 there was a sharp decrease, falling to 38.18% of GDP. In 2018 we can observe a slight recovery, with FDI stocks rising to 39.52% of GDP. The largest increase is seen in 2020, with FDI stocks peaking at 44.31% of GDP. This peak is followed by a decline in 2021 to 39.9% of GDP, and a further slight decrease in 2022 to 38.86% of GDP.

The trendline in the graph above shows the overall direction of the FDI stocks as a percentage of GDP over the 2017-2022 period. It indicates a slight downward trend from 2017 to 2022, suggesting that, overall, FDI stocks as a percentage of GDP are decreasing over time despite the year-to-year fluctuations. The most significant year-to-year changes are between 2017 and 2020, where there is a sharp increase followed by a significant decrease from 2020 to 2021. The most recent years, 2021 and 2022, show a continued decline, indicating that FDI stocks as a percentage of GDP have not recovered to the peak seen in 2020.

Having in mind that the FDI stocks include the value of the net liabilities of the subsidiaries to the investing firm, the reason behind the highest value in 2020 can be explained by the net liabilities of subsidiaries of foreign companies in Romania to the investing firm. The subsequent decline after 2020 might suggest a normalization of FDI flows post-pandemic.

Also, the peak FDI stocks in 2020 can suggest that the total value of foreign investments that have been made in Romania up until that point is at its highest as a result of the previous years' investments that have matured or increased in value and the reinvestments of profits by foreign companies in Romania.

Figure 2. FDI net inflows in Romania (% of GDP) (2017-2022)



Source: World Bank.

As we can see from the graph above, the FDI net inflows have experienced fluctuations in the period under review. Thus, the FDI inflows in Romania recorded the lowest value in 2020, standing at 1.40% of GDP. The massive drop in FDI net inflows in 2020 can

primarily be attributed to the impact of the COVID-19 pandemic which has had a significant impact on all states in the world. The pandemic caused unprecedented disruptions in global economic activities, affecting various factors that contribute to FDI flows. In this regard, the pandemic led to a shift in investment priorities, with a focus on healthcare, digital technology, and sectors resilient to pandemic-related disruptions. Traditional sectors that typically attracted significant FDI, such as oil and gas or automotive, saw reduced interest. Also, the COVID-19 pandemic led to a reduction in new investment projects and companies holding off on new investments as they assess the economic impact of the pandemic.

However, over the next two years (2021 and 2022), the FDI net inflows in Romania recorded an almost triple share compared to 2020 – 3.70% of GDP in 2021 and 3.5% of GDP in 2022. These shares are also a consequence of a shift in investment geographies. Some investors began diversifying their portfolios by exploring new locations for their investments that managed the pandemic effectively and offered stability. This happened in the case of Romania, which enjoyed the registration of many Ukrainian companies during the two years. In this respect, the Romanian state came to offer tax incentives as a means of attracting as many investors from Ukraine as possible (tax reduction facility for capital optimization - up to 15% of the tax due – profit tax, microenterprise income tax, specific tax, and, but also fiscal consolidation – In terms of corporate tax and VAT, or facilities granted for research and development).

As we can observe from the two figures above, there is a divergence between FDI stocks and flows in the same year, and this could reflect a scenario where, despite a robust accumulated investment presence (stocks), the particular conditions of that year (such as the pandemic) led to a decrease in the actual movement of new investments (flows).

Important to mention here is that FDI stocks are less volatile since they represent cumulative investments over time, while FDI flows can vary greatly from year to year based on economic conditions, investor confidence, policy changes, and other factors.

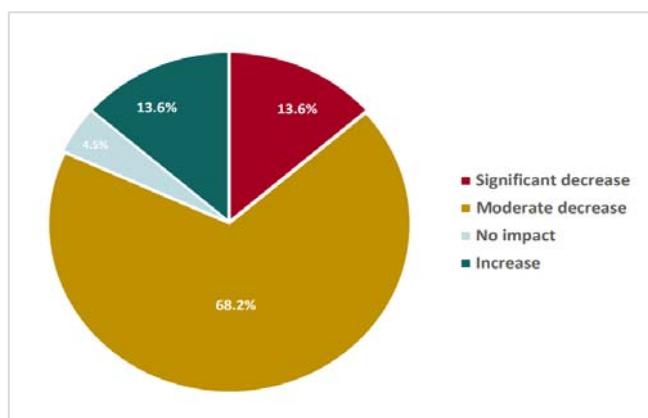
The strategies of foreign investors in Romania due to the pandemic

In order to analyze investor confidence and the strategies for their companies due to the pandemic of COVID-19, we will use the September 2020 results of one of the Foreign Investors Council (FIC) projects entitled Business Sentiment Index (BSI)⁽¹⁾. BSI is a project run by FIC since 2014 once every six months (September and March), which consists of a questionnaire that is carried out within FIC membership. They are asked about their overall perception of the business environment in Romania, compared to other peer locations where their companies are active. Members answer questions that reflect their expectations about revenue growth, exports, and investments. They are also asked to assess the competitiveness of the Romanian economy when it comes to infrastructure, bureaucracy, the fiscal environment, or the availability of workforce.

The September 2020 findings of the BSI reveal the coronavirus crisis's effects on the business climate in Romania, the effects being observed much better in the September 2020

edition of BSI compared to the one in March 2020. In this regard, the results indicate substantial shifts from March to September. The perception of the respondents regarding the impact of the COVID-19 pandemic on business was consistent with FDI trends, 68.2% of the respondents estimated a moderate decrease in their business, and 13.6% a significant decrease.

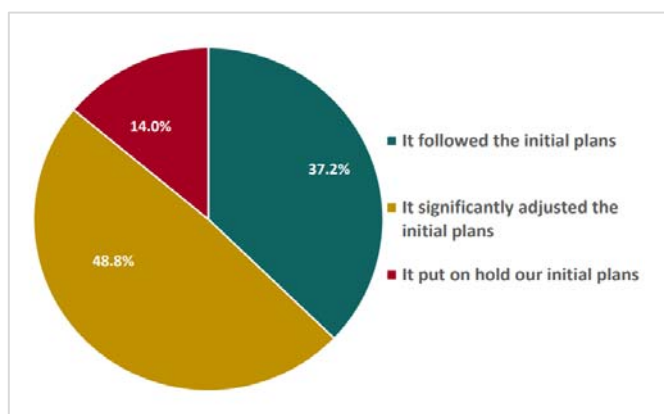
Figure 3. *The overall impact of the e Sars-CoV-2 pandemic on business*



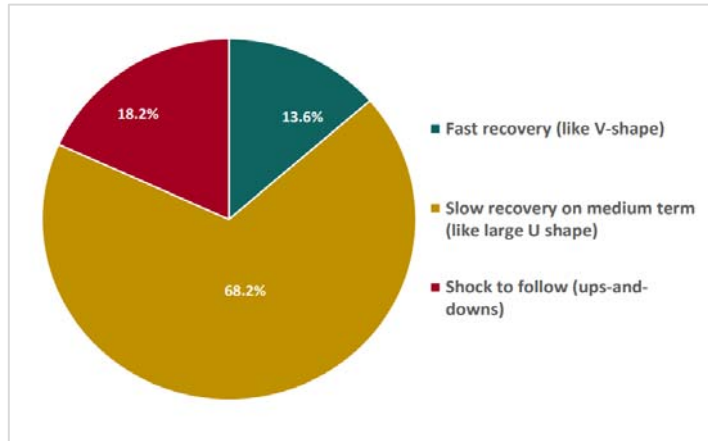
Source: FIC website.

Moreover, in terms of changes in the initial investment plans of the foreign investors for 2020, 48.8% of respondents said that it significantly adjusted the initial plans, while 37.2% of respondents followed the initial plans and 14.0% affirmed that it put on hold their initial plans.

Figure 4. *The impact of the pandemic on initial investment plans for 2020*



Source: FIC website.

Figure 5. Perception regarding the business recovery after the pandemic situation

Source: FIC website.

Figure 5 above represents the perception of the respondents regarding the business recovery after the pandemic situation. 68.2% of respondents anticipated a slow recovery in the medium term (like a large U shape), 18.2% of respondents expected shock to follow (ups-and-downs), and 13.6% of respondents foreseen fast recovery (like V-shape).

Conclusions

Based on our two main research questions, we can draw some other conclusions for our paper. In the first place, we can affirm that the COVID-19 pandemic significantly impacted FDI inflows into Romania, resulting in a noticeable decrease, as we analyzed in Figure 2. Secondly, the strategies of foreign investors in Romania transformed in response to the pandemic and the majority anticipated a moderate decrease in their business. The pandemic has demanded a revaluation of the investors' priorities, leading to an increased focus on the stability of both political and economic environments. Also, we can assume that changes in consumer behavior and market demand due to the pandemic influenced foreign investors to adapt their products, services, and business models to the new realities of the pandemic.

As results from the studies mentioned above, the pandemic's impact on FDI could vary across different sectors such as business machinery and equipment, business services, real estate, textiles, tourism, and transport industries, with some experiencing more profound effects than others. However, the digital infrastructure and healthcare sectors were in the spotlight, the pandemic shifting investment toward these two sectors, due to their resilience and growing demand.

In order to conclude, as a result of our brief research, the COVID-19 pandemic significantly affected FDI by altering investment patterns, investors' priorities and strategies. The unprecedented crisis accelerated trends like digital transformation, sustainability, and supply chain resilience while prompting governments and investors to adapt to a rapidly changing global economic landscape.

Note

⁽¹⁾ <https://fic.ro/press-releases/fic-business-sentiment-index-2020>

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