THE EVOLUTION AND EFFECTS OF THE FOREIGN DIRECT INVESTMENTS IN ROMANIA

DOBROTĂ GABRIELA
PROFESSOR Ph.D CONSTANTIN BRÂNCUSI UNIVERSITY OF TÂRGU JIU
e-mail: gabi.dobrota@yahoo.com

Abstract
Foreign direct investments are an important component of financial resources needed for the development of any economy. Attract them should represent a desideratum in economic development strategies, fact which requires providing a favorable climate, generated by a set of economic, political, social or legal conditions. The effects generated by FDI at the macroeconomic level, are reported in plan of economic growth, at the level of balance of payments and the state budget, and also on the labor market. In the paper are presented aspects of the process of attracting FDI in Romania after the transition to market economy and is realized a meaningful analysis of flows and corresponding balances between 2003-2012. The research has enabled the formulation of important conclusions regarding the evolution of FDI, their effects and the favorable conditions for their assimilation in the romanian economy.

Key words: foreign direct investments, economic growth, GDP

JEL classification: O16, O52

1. Introduction
The necessity of attracting of foreign investments cannot be doubted. Regardless of the development degree of a country, the possibility of procuring foreign financing resources much more stable in comparison with other types of resources represent a goal of the any governance. Thus, it is considered that at the level of developing countries, foreign direct investment represents one of the most stable components within the capital flows, also being a favorable factor of technological progress. [5] Foreign direct investments are preferable in comparison with portfolio investment (the two categories are distinguished by the manner of exercising control over the investment by the investor [3]) as they are influenced to a smaller proportion from the effects of the financial crisis (portfolio investments have a direct connection with financial markets, their volatility being directly influenced by their fluctuations). In addition, direct investments are external financing sources which does not affect the level of external debt, and the positive effect on economic growth cannot be disputed. In fact, between the economic growth and FDI level, there is a reciprocal link. Numerous studies have shown a positive link between economic growth and FDI level: Mottaleb (2007), Asafu-Adjaye (2000), Alfaro ş.a. (2001), Bengoa and Sanchez – Robles (2003), Kapuria – Foreman (2007), Thilakaweera (2011), Pearson and others (2012). [1, 2, 4, 7-10]

According to the IMF Balance of Payments Manual (5th edition), FDI involves a long-term investment relation between two entities, one resident and one nonresident. Such a relation is based on the exercising of a significant influence in the management of the resident company by the foreign investor. [11]. In this respect, it is considered that the direct investor, resident in another economy, must have at least 10 % of the share capital or voting power.

To analyze FDI are used two important indicators: FDI flows and stocks of FDI. The first reflects the inflows and outflows of capital from a country, corresponding of the investments realized by non-residents in a country, respectively by the residents of that country in other countries. The second represents the value of direct foreign investments realized in a determined time.

In the context of previous specifications, the research aimed the emphasis on the role and effects of foreign direct investment in Romania in the period 2003-2012. In this respect, was realized an analysis of the process of attracting foreign direct investment in Romania after the transition to a market economy, with accent on the period 2003-2012 and identify the generated effects at the macroeconomic level. Also, are formulated a number of conclusions on the issues highlighted, that enable the identification of the trajectory of process by attracting foreign direct investment in Romania and its ability to ensure a general framework, favorable of the absorption of foreign capital.
2. Analyze the process of attracting foreign direct investment in Romania

The existence of some favorable conditions by geographical, economic, political and social nature, can represent a favorable framework for foreign investment attracted by the business environment from Romania. In this respect, we can mention firstly the geographic and demographic elements, which positions our country among the most attractive locations for foreign investors: opening to the Black Sea, the European market access, the passage of the pan-European corridors 4, 7 and 9, the large number of people. The existence of rich natural resources and skilled workforce but cheap, the touristic potential (unfortunately, too little exploited in conditions of an inadequate infrastructure), tax incentives and an reduced rate of tax profits compared with other European countries represent additional elements that have facilitated the process of attracting FDI.

Romania represented an opportunity for foreign direct investment after 1990, especially in terms of privatization, fact which determined a positive rhythm in trend recorded at the FDI stock level (annual flows were recorded and decreases, significantly in the period 2009-2012). In addition, the market size, the low cost of labor, geographic location and the potential of natural resources were serious arguments for foreign investors. At the same time, the orientation of foreign investors was increasingly determined more by other factors, such as level of economic development, the competitiveness of the economy, political stability, the ability of government institutions to ensure a stable, transparent medium, without corruption, a simple and stable legal framework, corresponding with the economic realities, facilities and incentives, the existence of a developed infrastructure. Unfortunately, these conditions were not met in full and nor over a large period of time, a fact which was reflected in the evolution of FDI flows. After 2000, a series of economic and political changes have impacted favorably on the economic environment and the FDI. A favorable period was represented by the interval 2004-2008, in 2006 recording a level of 9.26% of GDP. This was determined by a number of issues such as the flat tax, privatization of Petrom, BCR, ELECTROPUTERE, Automobile Craiova, joining NATO etc. (figure 1).

![Figure 1 The evolution of stocks and flows of foreign direct investment in Romania](image)

If it is considered the origin of the capital invested in Romania, it is found that on the leading positions are maintained in 2012 compared to 2008, Netherland, Austria, Germany, France and Italy. (figure 2).
Regarding the orientation of economic activities, in 2012 was recorded a higher flow of investment in industry, followed by those made in the financial and insurance, construction and real estate, trade, professional activities, scientific and administrative, information technology and communications. They correspond mainly to the domains in which they were made important FDI. If are considering and the losses and dividends granted, changes occur in the structure of FDI flows generated by the various fields (industry remains the most important recipient of FDI flow, with 85.5% of the total flow of the year analyzed).

If we refer to the zonal preference of foreign investors, we find only small changes in 2012 compared to 2008. The Bucharest-Ilfov region remains in first place, with a slight decrease in the percentage of 2.1% (figure 3).

This orientation is explicable if is considered the developed infrastructure and large number of potential partners, customers, suppliers, workforce in the Bucharest - Ilfov. The smallest share is owned by the North-West, South West Oltenia and North East. Moreover, within these regions is recorded low levels of GDP per capita: 3884 euro in the North East, 4802 euro in the South West Oltenia and 5162 euro in the North West compared to 14604 euro in the Bucharest - Ilfov.

3. The effects of FDI at the macroeconomic level

The realization of investments in general, is a process whose positive effects cannot be disputed. But, the attracting FDI can determine both positive and negative effects (figure 4):
As it we noted above, FDI is influenced by the economic growth (obviously, requires a combination of factors, the economic growth not being a prerequisite for increasing FDI; Romania is a suggestive example in this sense) but he exerts an influence on it. Thus, the creation of new production capacities (in case of Greenfield investments) and thus new jobs, by increasing the efficiency of work and productivity, in the case of the other types of FDI or the consumption of domestic goods can determine positive effects in the sense of economic growth. An analysis of the evolution of FDI and their share in GDP can be made based on data from Table 3.

Table 3 Gross domestic product and FDI in Romania in the period 2003-2012

<table>
<thead>
<tr>
<th>Years</th>
<th>GDP Mill. Euro</th>
<th>Flows FDI</th>
<th>Stock FDI</th>
<th>Equity holdings</th>
<th>Credits</th>
<th>%F/GDP</th>
<th>%S/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>52605</td>
<td>1946</td>
<td>9662</td>
<td>7092</td>
<td>2570</td>
<td>3.69</td>
<td>18.36</td>
</tr>
<tr>
<td>2004</td>
<td>61030</td>
<td>5183</td>
<td>15040</td>
<td>12007</td>
<td>3033</td>
<td>8.49</td>
<td>24.64</td>
</tr>
<tr>
<td>2005</td>
<td>79747</td>
<td>5213</td>
<td>21885</td>
<td>17490</td>
<td>4395</td>
<td>6.54</td>
<td>27.44</td>
</tr>
<tr>
<td>2006</td>
<td>97787</td>
<td>9059</td>
<td>34512</td>
<td>27016</td>
<td>7496</td>
<td>9.26</td>
<td>35.29</td>
</tr>
<tr>
<td>2007</td>
<td>124654</td>
<td>7250</td>
<td>42770</td>
<td>31501</td>
<td>11269</td>
<td>5.82</td>
<td>34.31</td>
</tr>
<tr>
<td>2008</td>
<td>139762</td>
<td>9496</td>
<td>48798</td>
<td>34892</td>
<td>13906</td>
<td>6.79</td>
<td>34.92</td>
</tr>
<tr>
<td>2009</td>
<td>118269</td>
<td>3488</td>
<td>49984</td>
<td>35600</td>
<td>14384</td>
<td>2.95</td>
<td>42.26</td>
</tr>
<tr>
<td>2010</td>
<td>124396</td>
<td>2220</td>
<td>52585</td>
<td>35529</td>
<td>17056</td>
<td>1.78</td>
<td>42.27</td>
</tr>
<tr>
<td>2011</td>
<td>131515</td>
<td>1815</td>
<td>55139</td>
<td>37001</td>
<td>18138</td>
<td>1.38</td>
<td>41.93</td>
</tr>
<tr>
<td>2012</td>
<td>131676</td>
<td>2138</td>
<td>59126</td>
<td>39266</td>
<td>19860</td>
<td>1.62</td>
<td>44.90</td>
</tr>
</tbody>
</table>


In Romania, the favorable development from the period 2003-2006 was determined by foreign investments (mainly stimulated by the low cost of labor), increasing domestic demand, increase of exports and labor productivity growth, in context in which and the international economic known an expansion (from a growth rate of 2.3 in 2002 reached 5.3 in 2007), due to increasing international trade and reduce procurement costs of capital. [6] The economic and financial crisis has influenced economic growth, which has also affected FDI flows. Thus, in the range 2009-2011, there is a significant reduction in the level of flow FDI. Even though in 2012 it began to rise (by 17.8 % compared with 2011), the FDI flows remained well below that of 2008 (by 77.5 % lower, unlike most neighboring countries and EU).

FDI can influence in a beneficial mode the balance of payments of a country, in case in where entities created obtain goods for export. In addition, capital inflows are reflected in the financial account generating a source of financing the current account deficit and the reinvested profits can generate positive effects. Obviously, the imports realized by the created entities determine the increase of trade deficit and the use of external borrowing to ensure the resources to finance FDI lead to higher levels of external private debt. In this respect, according to the report of central bank regarding The foreign direct investment in Romania in 2012, the exports of FDI enterprises were 30.672 million euros while imports registered a level of 33.197 billion euros. Trade surpluses were recorded only in the manufacturing...
sector (transport, metallurgy, wood products, textiles, clothing and leather) and agriculture, forestry and fisheries. In terms of financing the current account deficit, at the level of Romania, it is found that FDI have significant shares in the resources needed, the lowest percentage recorded in 2011 (32.33%) and 2012 (36.59%), fact which emerges from figure 5.

![Figure 5 Financing the current account deficit through FDI](image)

Regarding consolidated budget, the positive effects are recorded where entities created through FDI pay taxes and employ salaried staff. Instead, if privatization is done with restructuring of staff, will be recorded additional expenses, properly unemployment benefits and payroll tax revenues fall. The budget may be affected by the granting of tax incentives (which may generate lower revenues FDI implementation phase, but may be represented determinant elements for attracting foreign investors and the positive impact will be registered on long-term). In Romania the transition to a market economy has influenced the type of FDI, in the sense that most aimed the investment through privatizations. This has had an impact on the budget in the negative sense, a recovery recorded in the period in which the greenfield investment became prevalent.

As it results from Figure 4, FDI influences the investments of capital, having an incentive effect through the additional resources which determining a plus in gross fixed capital formation, resulting and the development of domestic investment. Obviously, in this paper I caught part of the Effects of FDI at the macroeconomic level, the analysis could be deepened so as to achieve a more accurate snapshot of them and at the microeconomic level, but also in terms of the type of FDI.

4. Conclusions

Ability to attract foreign direct investment demonstrates the level of economic development of a country, but also and its stability and existence of favorable legal and institutional conditions. Thus, a clear, consistent and stable legislation on the establishment and operation of companies, bankruptcy, taxation, competition, accounting reports, etc., government’s desire to attract foreign investment, investment opportunities in various fields, the existence of a developed infrastructure, the degree of competitiveness economy, banking system stability, the existence of flexible economic structures, etc. are determinant elements of FDI. At the same time, it must promote incentives prudent to avoid discrimination between domestic and foreign capital and capital outflows in the form of labor remuneration for nonresidents (for obtaining high profits, due to the use of anti-competitive practices).

Romania has a number of advantages of geographical, economic, political and social being attractive for foreign investors's wear, from these perspectives. When considering the impediments caused by repeated changes in legislation and its ambiguities, the high level of bureaucracy, corruption, low competitiveness, political instability in recent years, the poor response of the authorities in managing the financial crisis, major imbalances in regional economic development, the economic gaps compared to most EU countries, the low level of development of public-private partnerships, etc. it can find an explanation of the low level of FDI flows.

The analysis carried at the level capacity of attract FDI and the main effects determined by these at the macroeconomic level, emphasized a series of issues arising from the peculiarities recorded in Romania in terms of the level, structure, the zonal distribution and the annual variation of FDI. Thus, we can formulate some conclusions, respectively:

- FDI is an important indicator of a country’s economic development, but dependent on its particularities;
- The evolution of the stock of FDI recorded a positive trend at the level of analyzed period, being significantly influenced by the privatization and opportunities of the economic environment in Romania;
Annual flows increased during 2003-2008 (except in 2007), reaching the highest level in 2008 (9.496 billion euros) and then fell sharply in 2009-2011 (in 2011 there was a level of 1.815 billion euros, 80.88% lower than in 2008); Romania remains one of the few EU countries where the level of FDI flows has not returned to that recorded before the crisis;

- Distribution of FDI in the region is unequal, Bucharest-IIfov net detaching from the other regions (60.6% in 2012);
- Branch of industry is preferred by the foreign investors, with the most important FDI flow, of 85.5% of the total flow from 2012;
- FDI exerts combined influences, both positive and negative, in macro and microeconomics plane, at the level of economic growth, the balance of payments, the consolidated budget, labor market, capital investment, quality of life, level of technology etc.

In this context, it is obviously necessary formulation of a clear strategy in terms of attracting and stimulating FDI. Attracting FDI in the detriment of the credits should be a priority in macroeconomic policies, which would decrease the current account deficit. In addition, appropriate management of policies to attract FDI so as to ensure maximization of positive effects over those negative, infrastructure development, optimization of institutions involved in formulating responses or release documents requested by foreign investors, increase competitiveness and create a favorable investment climate are goals that can provide the parameters needed for the development of the Romanian economy.

BIBLIOGRAPHY