FDI DEVELOPMENTS IN THE ROMANIAN ECONOMY

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Abstract

Since 1990, Romania was in a permanent process of metamorphosis and became one of the most important emerging markets of Central and Eastern Europe investitutii FDI receivers. In this sense, the model followed in terms of investments and preferred industries suffered following the successive changes during evolution of business in Romania. Romania, with competitive manufacturing costs and high levels of productivity, itself represented a real opportunity for the issuing of foreign investors seeking high returns through the implementation of export-oriented productive activities in proximity to the border with the European Union, and today even the European single market.

In recent years foreign investors have realized that Romania is a mature market and strong consumer and investment have driven the trend towards mass consumption by developing projects mainly in services, ICT, research and development and technological innovation. As one of the largest European markets, Romania offers great opportunities in terms of market, both in size and the population, providing investors with a significant market potential.

Factors which caused direct investments have been positive momentum in Europe, availability of material and human resources, low labor costs and, after long grinding, legislation.

Keywords: foreign direct investment; investment climate; capital movements; economic growth; European Union.

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INTRODUCTION

The investment is, broadly speaking, the sacrifice of part of present consumption for future consumption, possibly uncertain. Unlike saving which can be defined rather simply as deferred consumption, investment is actually sacrificed consumption currently intend to obtain a greater future consumption.

Foreign direct investment can be defined as a relationship of time investment, between a resident entity and a non-resident entity and which typically involves the exercise by the investor of a significant management influence now you invested.

In recent years, Romania has become an attractive location for foreign investors, the number of those present in our country is growing. Because of joining NATO and then EU membership, Romania has consolidated its position in the Euro-Atlantic both economically and politically. Foreign direct investment will facilitate direct access to foreign markets and importation of technology and know-how.

According to UNCTAD, Romania has attracted most foreign direct investment, their volume rising to 13 billion, occupying first place in the Eastern European region.
However, comparing with Central European countries such as Hungary, the Czech Republic and Poland, this achievement can not be considered on a scale so large given that these countries have absorbed about 80% of FDI in Central Region Europeans.

INVESTMENT CLIMATE IN 2006 AND 2007

Improving the business environment, the effects of introducing the flat tax and the positive attitude of foreign partners towards Romania led to the attraction of foreign direct investment worth EUR 9.1 billion only in 2006. This record high in 2006, up 74.24% compared to same period the previous year (5.213 million euros), includes an amount of 2.2 billion euros, Erste Bank takeover 36.8% stake in Commercial Bank Romanian.

The most important component of foreign direct investment attracted by Romania was represented by equity (worth EUR 4.098 billion, representing 45.1% of total FDI), followed by other capital, loans granted by the parent company affiliated structures in Romania (3.029 billion euros, representing 33.3% of total FDI), and component reinvested earnings (EUR 1.956 billion, representing 21.5% of total investments of these types of investments).

So, 2006 is the absolute record in terms of foreign direct investment attracted by Romania. In 2006, the cumulative amount of FDI attracted by Romania has exceeded 30 billion, registering a stock of 31.130 billion euros.

In 2006, the fierce competition in attracting foreign investments in Central and Eastern Europe region, Romania had a well deserved second place with 9.1 billion euros worth mentioned.

Share capital of companies with foreign participation in capital - an indicator expressing the overall value of contributions in cash and in kind, written by associates in the formation of society, and to increase the capital during the existence of the company - registered in 2006 value of 2.434 billion euros, up 0.5% from 2005.

As a share in 2006 represents 15.7% of the balance amount of share capital, since 1991. Most dynamic in terms of months of 2006 the value of share capital were: August (85.5 million euros) and December (355.5 million euros).

In terms of orientation towards economic sectors to foreign investors in 2006, foreign direct investments were located mainly in manufacturing (34.2% of total), during its most attractive investment is in metallurgy (8, 3%), food, beverages and tobacco (5.5%), oil processing, chemicals, rubber and plastics (4.5%) and transport means (4.1%).

Other activities that have attracted significant foreign direct investments during 2006 are financial intermediation and insurance, including insurance and banking activity and represents 22.2% of the total, retail and wholesale (12.2%), telecommunications (8.2%), construction and real estate transactions (6.4%) is still observed a low percentage compared with the potential of certain areas such as textile, clothing and leather (2.1%) and Hotels and restaurants (0.8%).

As to the type of FDI, greenfield investments are emphasized, which represents 48.5% of the total of 31 December 2006, respectively mililoane 16,725 euros, representing the difference takeovers of companies.

In 2007, Romania is at a stage of maturity in terms of FDI, which show an increasing trend, keeping the country in second place among states in Eastern Europe after Poland. In the first half of foreign investments have accumulated about 3.5 billion euros and I think by the end of the year will reach over seven billion euros, a level similar to last year if we consider the privatization of BCR, which contributed 2 2 billion. To note is that of total FDI in the first six months of the year, 50.6% represents reinvested earnings and equity. In 2006 direct foreign investments were 9.1 billion euros, placing Romania in second place in the region after Poland, which had a level of over 11 billion.

Volume of foreign direct investment in Romania stood at an average of 7.7 billion dollars (5.5 billion euros), which ranks a 30 on a global ranking produced by the Economist Intelligence Unit (EIU). This value leads our country to foreign direct investment share of 0.51% of total investments in the countries of Eastern Europe however, Romania ranks in second place, being surpassed by Poland. Poland is the first position among the countries of Eastern Europe: 24 place, FDI 12.6 billion USD, 0.84% of total global volume.

The report by the EIU in cooperation with the Columbia Program on International Investment (CPII), estimates that FDI inflows worldwide in 2007 increased, although at a slower pace than in 2004-2006. The same report says that after this growth will decline slightly from 2008 but will return to a stronger pace in coming years, 2009-2011. U.S. will remain number one destination for FDI in the period 2007-2011, with a rate of approximately 17% of total global investment.

But the situation changed when it comes to business environment conducive to FDI. Denmark is first quality business environment, followed by Finland, Singapore and Switzerland. No

Eastern European country is not in the top 20. Romania comes at 48, beat of Bulgaria (44), but also other countries of Central and Eastern Europe: Estonia (21), Czech Republic (26), Slovakia (29), Slovenia (32), Poland (34), Hungary (35), Latvia (37), Lithuania (38), Croatia (47). However, surpassing countries like Sri Lanka (66) Dominican Republic (67), Bangladesh (74), Kenya (77).

In 2007, the main industries to which foreign investors have been facing the automotive and auto components, IT and telecommunications, energy (biodiesel and wind), and other building materials industry. The projects are made public the Technology developed by Renault, Delphi Diesel, Honsel, Nokia, Ericsson and Pirelli Ambiente Technology in the field of automotive components, worth 25 million euros.

Also, China is in the field of electronics and IT, a project worth 20 million euros, Belgian Walkens company announced a project worth 5 million euros in the field of printing and advertising material, company Hirschmann comes with a draft 5 million euros in the field of automotive wiring and Helovet in Belgium, with 3 million endowment invested in equipment and medical units.

FDI IN 2008 AND 2009

Foreign direct investment surged in the first two months of 2008 with 1,22 billion, 40% above the same period in 2007, and covered over half (55.5%) of the current account deficit, the high proportion last year.

After the first two months of 2008, foreign direct investment had reached 870 million euros and covered 42.5% of current account deficits at that time.

Of the total foreign direct investments made in Romania in January and February, Equity and reinvested earnings accounted for less than half (49.2%) and intra-group loans accounted for the remaining 50.8%. Loans they take from companies located in Romania based parent companies abroad have the potential to deepen the current account deficit as it will be returned at maturity.

Their share in FDI in first two months of 2008 increased slightly compared with the first two months of 2007, when intra-group loans accounted for 46% of the total.

Compared to January 2008, FDI advanced in February, with 75.25%. Foreign direct investment amounted in the first months of this year, 695 million euros, but covered a larger extent (61.2%) current account deficit.

Foreign direct investment in Romania in 2008 decreased by 22.3% to 7.069 billion euros and covered the balance of payments deficit at a rate of 41.9%.

In 2008 Romania occupies the first position among the most attractive countries for investors in Southern Europe, with a rate of 52% of total investments, followed by Turkey with 50%, Bulgaria with 40%, 31% Greece, Croatia 28% and 19% Serbian.

In 2009, the percentage of foreign direct investment was further reduced to 36.4%, and the National Forecasting Commission projections show that this percentage will be reduced to 30% in 2013. Thus, the current account deficit has increased in 2009 to 18,2 billion, but declined as a share of GDP, up from 13.6%, compared with a revised 13.9% result in 2007.

Last year, foreign investments accounted for only 41.2% of current account deficit, compared to 2008, when it covered 41.7 percent. In the following years, foreign direct investment will be reduced gradually to 6.4 billion euros in 2013.

EFFECTS OF FDI IN ROMANIA

For Central and Eastern European countries, foreign direct investiitiile are crucial for their integration into the world economy. Obviously, the early transition countries of Central and Eastern Europe lacked physical and financial capital to help restructure and stimulate economic growth.

Foreign direct investment generates additional benefits for countries collateral vessels and not only those strictly related to the production of goods and services. The countries of Central and Eastern Europe, they are greater than the capital itself.

The main effects of FDI:

- Technology transfer

Obviously, it is likely that foreign direct investment to bring technology from abroad, including plant and equipment itself, as modern production processes. State firms by buying companies in advanced economies has resulted in upgrading their factories. This has led to increased productivity which was then supplemented by qualification programs in business, ultimately resulting in an increase in skills and real wage.

Large amounts of investment from strategic investors not guarantee technical improvements that create value added export structure increased. For example, Audi's subsidiary in Romania is not used by local suppliers, so local suppliers have no contact with any technology and new methods and incentives to improve their own technology.

But there are good examples. Type of investment that improves power export industry is made by Renault in Romania. Renault has invested in modern production and export at west level prices.

An understanding of the principles of competition (both domestic and international) was necessary, while marketing practices such as advertising campaigns were attractive and differentiated packaging completely absent.

Recent practices introduced new style of leadership were also absent. Logistics and supply channel management were also unknown. It also lacked the attention directed at the quality in the production process and focus on customer service, both in the manufacturing sector, and in the service. New management practices involve competition, opportunity for success, but also a serious threat to company existence.

- Investments are beneficial to the market

FDI made by multinational firms are probably the most contraversata form of globalization. There are critics who say that foreign companies exploit poor workers and labor law loopholes. The problem is that these critics base their criticism on cases of abuse reported. There are those who believe another, and saying that foreign investments bring new capital, technology and jobs to countries that need them acute and statements are based on these macroeconomic studies.

Foreign direct investment certainly helped the local economy. They make it possible to increase productivity and production in these sectors, while increasing the national income as reduce prices and improve quality and offer services and products for consumers. Foreign investments have not only proved beneficial for the industry to invest directly, but generated positive effects for the economy side.

- Standard of living improves

Perhaps the most important effect of FDI is the ability to raise local living standards. It is estimated that approximately 80% of direct foreign investments made today are made by companies entering the local markets and sell goods there and not producing companies to export cheaper.

Local consumers are the biggest beneficiaries of these investments. In almost all cases investigated local consumers get to enjoy lower prices on products or enjoy a wider range of products, after the foreign companies came to this country.

Lower prices for foreign companies improve efficiency and productivity of the sector by introducing new capital, technology, know-how and by determining the least efficient local firms to improve their economic cycle or to exit the market. Although some companies will lose market share, in the end benefit consumers by lowering prices to improve the standard of living.

- It creates jobs

There are criticisms of direct investment made by companies seeking to invest in the production of cheap products that will be exported. It was found however that such investments are good for local economies that create jobs and lead to economic growth without threatening local businesses from competition.

Foreign firms, whether or not export-oriented, pay wages that are at least equal or often higher than the wages offered by local competitors. That comes mainly from the fact that foreign firms pay higher salaries to attract the best workers, to motivate and reduce staff turnover.

Foreign investment companies that are export oriented and are threatening local producers because foreign companies do not compete for domestic market share. On the other hand, local firms can profit from this situation action as local suppliers to these companies. Also, local firms can win if foreign companies come to emulate, if acquiring technology and know-how from them.

FDI CRITICISM

During the wave of globalization of national economies critics argue that foreign direct investments are a form of neocolonialism which preserves the dependency status of countries that are not part of the club of developed countries.

Another argument is that foreign direct investment focuses on economy sectors are labor intensive and not on those who are technologically advanced.

On the other hand, foreign firms that act a weak institutional environment widely used restrictive business practice in order to prevent the entry of new firms in a given sector. These include acquisition of potential competitors, dumping prices, restrictive contracts with suppliers and distributors to store not competitive products, know-how monopolization through acquisition of patent rights and licenses that are then used for lobbying and lobbying for higher tariff barriers high costs in a given sector.

Another argument is that instead of decreasing unemployment in the long term is growing. Also, multinational companies are accused of excluding citizens from the host country and managerial positions that remove unjustified profits by using transfer pricing techniques.

Lately, another concern emerged: multinational companies transform the host country in "oasis in environmental pollution" investing mainly in those industries in countries of origin have a negative environmental impact high.

The most pronounced effect of competition on investment flows is freezing environmental regulations at a lower level of protection. Countries fear that by taking a unilateral decision to increase environmental standards relating to risk losing a competitive advantage in favor of regulated countries with lower standards. In other words, environmental commitments lose value for that is related to attracting investments.

Economic globalization has greatly expanded opportunities to outsource capital related costs imposed by environmental restrictions on poor countries by exporting waste and pollution factors.

Even tax benefits hoped the host country is often successfully avoided investing firms. Often, multinational firms are not subject to effective taxation because of their ability to exploit transfer pricing and other methods to minimize debt.

A variety of factors may make foreign direct investments have a negative impact on the host country. Impact of foreign investment depends on the sector in which investment takes place and the legal environment, social and economic investments held.

Disadvantages of attracting foreign investments in case of a weak and inefficient institutional environment:

- Fri attracted to invest in companies wish to obtain additional revenue from the creation of monopolistic structures are drawn accurately and weak institutional environment and handled;
- These investments have a negative effect on society rather that in terms of social development (whether in terms of nominal growth is seen rising);
- Multinational firms operating in a dangerous environment poor institutional even for competitive local firms due to relatively high power they have.

From the perspective of the host country may be potential benefits from the following list:

- FDI promotes economic growth and high productivity;
- FDI is a source of currency strength for developing countries (these are different forms of financial arrangements, which may be contributions in money, materials or property). The biggest advantage is that country's foreign debt does not grow by such contributions;

- FDI contributes to the transfer of new technologies, know-how, managerial skills and marketing skills together with foreign investors;
- FDI promotes international trade through horizontal links with branches mother companies, leading to increased market competition and a host country and there is potential to establish research and development relationships with local universities and research centers;
- Capital as foreign direct investment capital is the most beneficial to the recipient country's economy due to the positive effects of time on domestic economy (not volatile like other forms of capital);
- Creating good jobs and contribution to growth by this solvent demand;
- It creates competition for local firms and forcing them to restructure and become competitive or go away.

CONCLUSIONS

FDI can play an important role in modernizing the national economy and promote economic growth because the positive effects they have on productivity, technology transfer, introduction of knowledge management, improvement of labor, access to new markets, etc.

Starting from these considerations, public authorities have taken a number of advantages for attracting foreign investment of which recall those of the market, the resources of international relations and also political benefits, and social legislation. Following these opportunities offered by our country wants Romania to be viewed as a business partner able to satisfy potential investors.

Clear evidence of how it is perceived positive investment climate in Romania are the companies that hold important positions on the market where they operate and who decided to invest some of their equity in our country. Such examples can be given by Yazaki, a world leader in production of electrical wiring that has invested 14 million euros to build a plant in Ploiesti Industrial Park. Another example is Johnson Controls, one of the largest manufacturers in the world in the field of automotive systems and has invested an amount of EUR 16.5 million for the construction of factories in the automotive trim in Ploiesti. First position in the ranking of foreign investors after share capital is what the French company Renault SA invested in the Romanian company Automobile-Dacia SA.

Investment potential of our country has always been attractive to foreign investors but, in entering the Romanian market opportunities have materialized since 1997, with the change our country and the beginning of reform legislation to privatize state companies from different industries of the our country.

Direct foreign investments are spread across the economy, and investors are coming mainly from Europe. Romania is attractive for foreign investors due to low labor costs and well trained workforce.

Foreign direct investments are important for us because of "the import of know-how" and modern technology that investors bring home countries.

It was found that generally, foreign direct investment grew annually but not always enough to cover the balance of payments deficit.

However, EU accession, in the future can be considered an impediment for some investors because the alignment of labor remuneration of European community standards.

Foreign direct investment generates additional benefits for countries collateral vessels and not only those strictly related to the production of goods and services. They bring foreign technology, including equipment and plant itself as modern production processes, and new capital and jobs in countries that need them acute.

Foreign direct investment certainly helped the local economy, making it possible to increase productivity and production in these sectors, while increasing the national income as price reductions and improved quality and offer services and products for consumers. Foreign investments have not only proved beneficial for the industry to invest directly, but generated positive effects for the economy side.

Because many benefits of FDI, we believe they are an essential element in the economic development of a country, an example in this respect is even Romania.

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