THE DYNAMICS OF FOREIGN DIRECT INVESTMENT IN ROMANIA AFTER EU ACCESSION

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Abstract: *Identification of potential investment of the countries in the current context is one of the main important problem of the world economy because the investments, particularly foreign ones, is considered the key factor for economic growth and development.*

Foreign direct investments are an alternative source for financing the national economy, with a tendency in recent years of a positive effect on the Romanian economy. This paperwork highlights the role of foreign direct investment in Romania's economical growth potential, with major impact on employment, on the economic modernization, technology transfer and on the living standards. At the same time the article analyzed and highlights the contains of the current trend of foreign direct investments, structure and dynamics after Romania joined the European Union and their geographical distribution on the main development regions.

Keywords: foreign direct investments, role of foreign direct investments, development regions, economic growth

JEL Classification: R12, E22

INTRODUCTION

In the context of globalization and innovation, the issue of foreign direct investment (FDI) is increasingly discussed in economic theories and their influence in the modernization of the economies of the recipient countries, representing "the critical element of economic growth, promoting intensive factors, quality and efficiency" (Munteanu and Tudor, 2009).

Many economists define foreign investment in various poses, some consider such investments as being "capital transfers from one country to another" (Ghibuţiu, 2009), the physiocrats stretch the need and the investment's role, but investment costs were related to their vision of the land and the work of land. Father of the economy, Adam Smith believed that "the capital accumulation by the force of things must be prior to the division of labor" so in order to work it is necessary to create jobs, to invest in advance. John Maynard Keynes considered that the volume of investments, "the result of collective behavior of independent entrepreneurs" is heavily affected by changing interest rate and a lesser degree. The neoclassic felt that tax cuts and structural reforms to increase productivity and lower unit labor costs will increase investment interest (Anghel and Iancu, 2002).

The transition of former socialist countries of Central and Eastern Europe to a market economy expansion has occurred against the background of foreign direct investment. For many years they have been considered a unique solution for bridging the enormous competitiveness of new entrants countries in the EU and those developed ones. Romania is also in this situation, and as a result in recent years has become an attractive target for a large number of foreign investors. Besides, the integration in the European Union on January 1st 2007, brought new investment opportunities.

THE ROLE OF FOREIGN DIRECT INVESTMENT

An analysis of the impact and role of FDI has become mandatory to understand where Romanian economy is up to. International experience in the field of FDI, point to a few clear things in Romania and we do not see why these things would be different than in other countries. In some countries, though not all, FDI has played a major role in promoting development, but do not knows any other example of a successful country in which the main role of foreign investment to be returned. In addition, an important role was played by internal investment. The role played by foreign investment is necessary, but one adjuvant in promoting development. International practice shows that one can speak of a contribution of FDI in technology transfer, organization and management, and in employment.

FDI has an important role in the process of privatizing state sectors, as evidenced in Central and Eastern European countries, especially after the '89, in promoting the market economy and increasing competition in the markets.

FDI has an substantial support in economic growth by creating new production capacity through the creation of new consumers and taxpayers. They support in the same time the increasement of capital investments because foreign investors access to external sources of capital, with positive effects on the balance of payments, current account deficit funding.

Contributing to the restructuring of the Romanian economy, FDI has influenced, directly and indirectly, the employment's structure by contributing to the creation of new jobs, while in the same time having a training effect, stimulating domestic competition since authentic producers are interested enhance the effectiveness and quality outputs "or to deal with the presence of foreign investors due to competitive pressures or to acquire the provider of the foreign investor" (Ivan and

Iacovoiu, 2008). Therefore, the positive effects induced FDI to support improving the life standard of the population.

Besides the positive effects, the negative effects can occur at both macro and sectorial levels. Some of the negative effects are inherent in the short term, their occurrence is related to the implementation of the investment (Ivan and Iacovoiu, 2008). One of them, emerged from the restructuring of privatized enterprises to streamline business may be the emergence of rapidly increasing unemployment and development gap between regions of our country.

It should be noted that FDI recipe works with success only in countries that directs oriented sectors to foreign capital and high technology innovation. Unfortunately, it is not the case of Romania where FDI are mainly determined by increased imports and the current account deficit. This happened because in Romania, FDI has not been directed toward innovative sectors but to speculative real estate and retail sectors in seeking to obtain a maximum profit in a relatively short time, where unfortunately there were also the interests of the Romanian economy.

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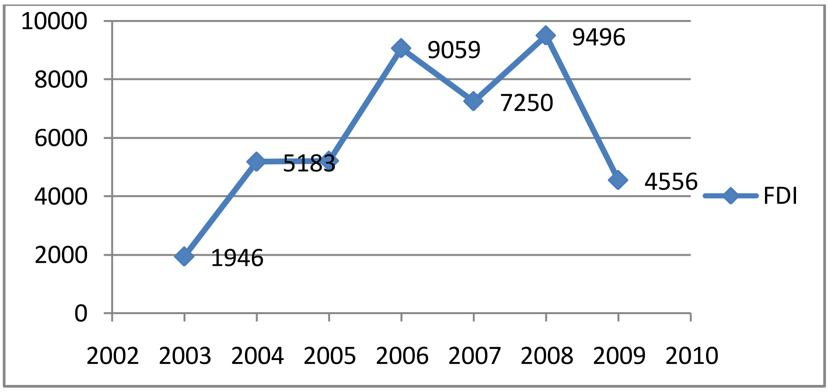
For a post-communist country, Romania has made significant progress in attracting foreign direct investment, taking into account the fact that foreign direct investment is impetuous required in order to straighten up the "significant gap with industrialized countries (Negritoiu, 1996).

Concerning the dynamics of FDI in Romania, since 2003 there has been an upward trend of them, primarily due to investment flows from Europe to Romania as a consequence of proximity of accession and the improvement of country's rating and economic performance.

Figure 1 - Evolution of FDI attracted by Romania during 2003-2009 (Billions Euro)



Source: National Bank of Romania, The balance of payments 2009, processed data accessed on 13.12.2010 at http://www.bnro.ro/page.aspx?prid=4617#peloc

An accelerated growth in recent years has placed Romania among attractive FDI destinations. Consequently, the investors interest in Romania has increased steadily in recent years. Cheap and skilled workforce, low taxes, improving the business environment, the positive attitude of foreign partners and favorable geographical location are the main advantages of Romania for foreign investors. Thereby, as can be seen above, Romania has registered an upward trend in attracting foreign direct investment. In 2008, Romania attracted investments worth EUR 9496 billion placing her an enviable position on the statistics that analyzes foreign direct investment flows in South Eastern Europe.

As expected, the economic crisis has affected the amount of FDI attracted by Romania, in 2009 recorded a drop regard previous year, leading to the 4556 billion euros.

The number of FDI projects has almost halved in 2009 in Romania, while the volume of newly created jobs has decreased by 44%, according to a study released by Ernst & Young. Romania recorded in 2009 a 48% reduction of the number of FDI projects and a deceleration of 44% in the creation jobs, compared to 2008.

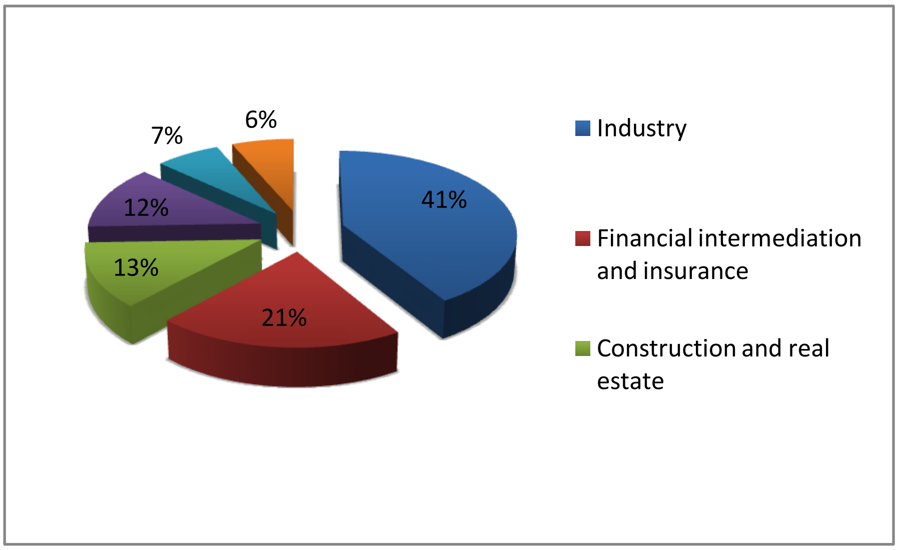
According to that study, in 2009 Romania has attracted 75 foreign direct investment projects, representing 2% of the total projects in Europe, and generated 6384 new jobs, or 5% of all Europe. Thereby, in 2009 Romania ranked seventh in the European rankings in creating jobs, respectively, ranked 11th by token of the market share in total FDI. The same study shows that in 2008 in Romania were created 11,403 new jobs through the 145 FDI projects.

Despite the rather difficult period our country is passing through, Romania is still considered an attractive destination for industrial projects, in 2009 Romania drew about 7 percent of total European investment projects.

In 2009, FDI in Romania was also decrease by 48,4% from 2008, to 4556 billion Euros, according to statistics of the national bank. Investments financed the current account deficit at a rate of 96,9% last year. Intra-group loans accounted for 37,4% of FDI, amounting to 1834 billion Euros and equity, including reinvested profits, 62,6%, or 3065 billion Euros in 2009, according to statistics of National Bank of Romania.

From the point of orientation for foreign investors into industries (according to NACE Rev. 2), FDI was located mainly in industry (41% of total). On the next place is filled by the financial and insurance sector, followed by construction and real estate, commercial, and telecommunications. Within industry, manufacturing industry attracted the largest volume of investment (31,1%).

Figure 2 Distribution of FDI by main economic activity



Source: processed data accessed on 13.12.2010, http://www.bnro.ro/page.aspx?prid=4617#peloc

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

An important aspect to be considered is the geographical distribution of FDI on development regions.

From the territorial point of view is observed mainly targeting foreign direct investment to the region of Bucharest-Ilfov (63%), other important developing regions receiving FDI are central region (9%), South East (7%), region South (7%) and West (5%), at the opposite end stood the North-East with only 2% of total investments attracted. The graphical representation can easily point an unbalanced distribution of geographically foreign investment placement. Over half of these were concentrated of the Bucharest Region.

This phenomenon can be explained by the quality of infrastructure, labor supply and quality, the existence of some important opportunities and more stable markets, for better satisfying the requirements of an investor. The low FDI in the period analyzed were located in North-East, this is a poor area in terms of material resources, infrastructure, and the aging workforce (due to massive migration of labor young labor in other regions of the country or abroad). Another explanation is that in these regions, many investment projects were made from scratch, due to the lack or failure of specific economic infrastructure.

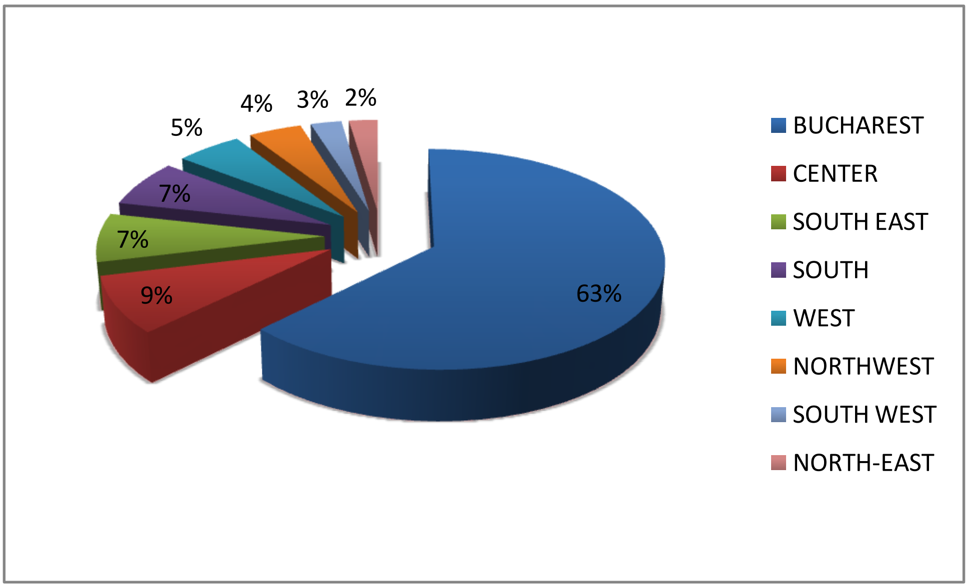
Table 1 - Foreign direct investment in Romania on 31 December 2009

	Value(Euro)
TOTAL din care	**49984**
Bucharest	31699

Center	3703
South	3576
West	3095
South-West	2938
South-East	2058
North-West	1940
North-East	975

Source: BNR Report for 2009 http://www.bnro.ro/page.aspx?prid=4617#peloc

Figure 3 - Geographical distribution of FDI



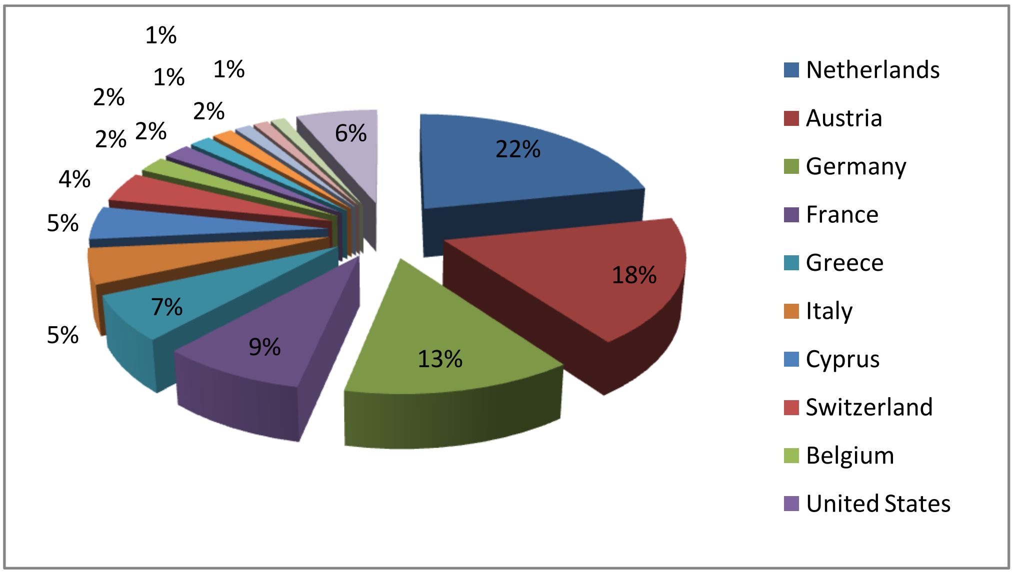
Source: processed data from Table 1

DISTRIBUTION OF FDI BY COUNTRY OF ORIGIN

Taking into account the country of origin, we can say that the largest investments share in aur country have Netherlands, Austria and Germany. According to a study made by the National Bank, the first five countries ranked by the share of FDI stock at 31 December 2009 is: Netherlands (21,8 up from.17,2%. in 2008), Austria (18,1 vs 18.8% in 2008.), Germany (13,4 vs.15,4%), France (8.5%) and Greece (6,6%). In

Romania, equity flows are differentiated in greenfield, mergers and acquisitions and business development. In 2009, according to studies made by the National Bank, the preponderance of shareholdings flow is represented by business developments with a value of 3065 billion euros

Figure 4 - Distribution of FDI by country of origin



Source: processed data accessed on 12.12.2010 at http://www.bnro.ro/page.aspx?prid=4617#peloc

CONCLUSIONS

FDI inflows can play an important role in restructuring enterprises and institutions that have an effect on their training. They have an important role in changing international specialization. and may be associated with the development of intra-industry branch trade with EU countries (Munteanu and Tudor, 2009). In recent years there has been registered an upward trend of investment flows to Romania, which may mean that our country is on up track. Of course, the effects of recession have had an impact on foreign investments, they are decreasing by nearly half compared to the so-called boom that Romania is the record of 2007 and 2008.

However, foreign investment flows in addition to positive effects produced widening the disparities between Romania's development regions. Taking into account both the positive and negative, of foreign direct investment promotion requires appropriate government policies, aimed at the intelligent use of foreign capital flows as a tool for strategy development and implementation of targeted measures to a directional attract of FDI.

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