IMPACT OF DIRECT FOREIGN INVESTMENTS ON ROMANIAN ECONOMY

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Abstract:
To reduce disparities compared to other European states, Romania has the objective need of foreign direct investment to complement and enhance local efforts, supporting competitiveness and efficiency of resources, assets and capabilities. Given both the own expertise and positive examples of central European states to maximize the ratio between positive and negative contributions of foreign direct investment requires government policy to promote appropriate use of smart-oriented flows of foreign capital as an instrument of development strategy.

Key words*: foreign direct investment, research and development, productivity, globalization, integration.*

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Regarding the conceptual aspects, foreign direct investment involves the internalization of tangible and intangible assets in the following terms: economic agents involved to be located in different national spaces, investor interest must be manifested in the long term, the investor must exercise control over assets in which investment was achieved. In the context of new developments in global and regional the concept of "foreign investment" gains new valences. The concept of "global capital" may faithfully reflect processes generated by increased globalization without a precedent. Also, the existence of "European space" requires redefining the concept of foreign direct investment so as to reflect current European realities.

By making foreign direct investment, transnational companies aim to obtain the greatest possible gain by employing the own "advantages", with highest yield, beyond national borders, which implies that source countries have reached a certain level of economic development. Therefore, the level of economic development influences both the volume and structure of FDI flows generated and received by a country. In this regard, tests have shown the existence of a bidirectional relationship between the level of economic development of countries of Central and Eastern European countries and the flows of foreign direct investment received by them.

Investment motivation of transnational companies have shifted from access to natural resources and protect the reaction from local markets to competition considerations (cost and efficiency), access to strategic assets (capabilities of research and development) and liberalized markets. Across Central and Eastern Europe, although the market size and cost factors of production are the main motivations investment, an even bigger focus is put on economic and political environment, quality of governmental institutions, legal system, the level of access to information and awareness development of infrastructure (transportation, communications etc..)

Provided that there is a clear and a coherent strategy and an appropriate legal and institutional framework, host countries can apply a wide range of policies to promote FDI, starting with basic policies by attracting and keeping foreign investors, and continuing with more complex policies, focusing on guiding foreign investment to certain economic sectors and / or development regions by using intelligently investment incentives.

In this sense, the policy of the European Commission follows the granting of a broad range of financial incentives for both foreign and national investors, to reduce disparities between regions development (at the level of a member state or of the EU), ensuring, at the same time , fair competition terms for all economic sectors.

Under the policy of attracting foreign direct investment, Romania has experienced two distinct periods, a first time, which identify, broadly, the past decade, characterized by economic and legislative instability along with the lack of a proper institutional framework and a clear and coherent strategy followed by the pre-accession and during the EU, characterized by a sensible improvement of the legislative and institutional background due to economic stability.

Currently, mandatory compliance with European rules and regulations on foreign investment regime in the context of an appropriate institutional framework (ARIS and ADR s), facilitates achieving national development by attracting FDI, provided that the responsibilities of institutions to be involved have well defined responsibilities and provide necessary financial, human and material resources.

Integration into the European Union was a powerful incentive for foreign investors eager to gain a better position on the regional market, confirming at the same time, the existence of a functioning market economy with immediate effect as reducing the risks associated with investments made in the Central and Eastern European. Essentially, the structure of FDI influxes suggest that foreign investors have been motivated, in particular, by: unlocking the potential market, especially in Poland and Romania; existing cheap and abundant labor in all Central and Eastern European countries surveyed; exploitation of natural of resources in countries where there were such resources, such as Romania. Although most of the FDI attracted in those states were directed towards the services sector, at a national level one can distinguish differences from one country to another regarding the preferences of foreign investors in that these were manifested depending on the concrete conditions existing in the host economy and of the field of activity.

Flows of foreign direct investment received by Romania are relatively low compared to other CEE countries (especially Estonia, Hungary and Czech Republic), being strongly concentrated in areas that enjoy a level of higher development and more modern physical infrastructure. We may notice the preference of foreign investors for some activities in the service sector (trade, financial services, telecommunications, business services) which have attracted significant investment such as "Greenfield" ones, along with some traditional industrial activities (metallurgy, consumer goods, automotive, cement, chemicals, processing oil) mainly characterized by the orientation of FDI towards the purchase of state companies in the process of privatization.

Maximizing the potential beneficial effects and reducing "costs" associated with foreign direct investment depend on the concrete conditions existing in the country to implant the economic, social and political level of penetration of foreign capital and the structure of FDI influxes. In the Central and East European countries policies to attract FDI have been based on a clear and coherent long-term, aimed at improving the quality of existing factors of production by making investments in technology, infrastructure development and training in increasing labor , massive flows of foreign capital had significant beneficial effects materialized, in essence, supporting and enhancing the economic and social development which, in turn, will positively influence both the level and quality of future flows.

Using FDI as effective and efficient, Estonia, Czech Republic, Hungary and Slovenia and have strengthened the competitive advantages of scale II Porter, advancing, with success, to stage the competitive advantages based on innovation, characteristic of developed countries. Developments of these four states constitute proof practice, unquestioned, the importance of direct foreign investments in resources, capabilities and assets based on economic efficiency and competitiveness. Sustaining economic progress in these countries, FDI has directly and indirectly influenced the social and natural capital contributions over the entire strain reflected the Man-Society-Environment is different, depending on the volume of flows received and their quality.

In Romania, the contributions of direct foreign investments at the microeconomic level, materialized in increasing productivity, efficiency and competitiveness of the activity is found, mainly in those industries that have benefited from greater inputs of foreign capital. However, in some cases (like cement), strengthening the competitive advantages was achieved by the economic and social costs that are not only significant but also long term. Essentially, the positive and negative effects arising from microeconomic-level, direct foreign investment have contributed to the restructuring of Romanian economy in the sense of restricting the activity of manufacturing industry with significant development activities in the service sector (telecommunications, trade, financial intermediation).

Effects generated at the microeconomic level were reflected directly and indirectly on the evolution of Romanian economy as a whole, the impact increasing since 1997, with the penetration of larger flows of foreign capital. Influences of foreign direct investment on economic environment entail both positive and negative aspects and in the sense that supporting economic growth by supplementing domestic capital for the purchase of fixed assets and by stimulating domestic investment, FDI has contributed to deepening the trade deficit due to the dynamics and structure flow generated by foreign companies who have imported goods especially with high value added and exported, for the most part, products with a low degree of processing. FDI influences on the social environment are not only different but also difficult to quantify, positive contributions are to be manifested by, mainly on the quantitative component, by creating new jobs, and to a lower extent, the aspects of a quality (wage income growth, improvement of working conditions and training of employees).

Transition of former socialist countries of Central and Eastern Europe to market economies more or less functional was due to funding expansion in the region of direct foreign investment. For more than 15 years, they were considered unique solution with high chances of success of the structural problems and to reduce the enormous disability in competitive economies that separates the new EU countries from the developed countries.

Foreign direct investment should be only a tool, an instrument, one of many available to governments to achieve concrete objectives, subordinate to the main, the survival and functioning of national economies within the European single market. As to us, attracting FDI has turned into an end in itself, a bet for all post- December governments have proposed to win, not in qualitative terms, such as was expected, but quantitative. The most recent reporting quantitative performance of these places Romania on the 15th place out of 27 EU countries in terms of foreign capital into the economy in 2007 in the form of FDI. However, approximately seven billion net inflows of FDI have neither contributed significantly to labor productivity growth, nor to placing Romania amongst the most innovative countries.

The situation is not single. Other new Member States are also attractive markets for FDI, have succeeded in some small measure to recover the disability development which separates the advanced European economies, considered as standard functionality and performance. Labor productivity levels are placed well below that of the old members of the European Union, economic competitiveness has had a notable jump in the last decade, and growth rates higher than in the EU15 has not reduced the gap significantly important for the development and standard of living.

The values of labor productivity are suggestive in this regard. Considering productivity per employee in the EU27 as 100, EUSTAT places Romania on one of the worst position, with a productivity of labor / employee 41. Bulgaria registers only a very small 35.7. We are not alone in the group of countries with values below EU27 productivity: Cyprus registered 86.1, Slovakia - 76.8, Slovenia - 84.3 Estonia - 68.1, Hungary - 73.9 Latvia - 53.6, Lithuania - 60.7, Poland - 66, Czech Republic - 73.6. From the other side of the threshold EUSTAT savings are old Member States, the best performance in terms of labor productivity / employee being achieved by countries such as Denmark - 130.2, Germany - 105.7, Finland - 111.9, Sweden -- 115.3, Austria - 119.9, Belgium - 130.2, France - 124.3, Ireland - 135.6, Luxembourg - Netherlands and 180.3 - 114.3.

High values of labor productivity are associated with high levels of innovation performance, and differences between countries, in this regard, are reflected in the welfare of their citizens. According to the European Commission, the most innovative economies are those of Denmark, Finland, Germany, Sweden and Great Britain. Austria, Belgium, France, Ireland, Luxembourg and the Netherlands are part of the echelon 2 states EU27 economies innovative. The two groups of countries are also those whose citizens have the highest standard of living of the EU, but also those that invest most in training employees, which is another weak point in Romania. In this regard, even the Bulgarians are not any worse. Of the total expenditure incurred on the job market, Romania allocates only 11.8% of employee training, and Bulgaria 15.2%, in obvious contrast to the amounts spent in performing countries in innovation and high levels of labor productivity, such as Germany (40.4%), France (43.4%) and Ireland (44.2%).

"Foreign direct investments have not resulted in a jump of productivity and have not made the Romanian economy an innovative player on the European market,"[1] believes Constantin Ciutacu , Dr. in Economics, head of the Institute of National Economy. Explanation is that "foreign capital flows were not directed to those sectors of the economy that produce sustainable economic growth, but to the speculative sectors such as retail and real-estate" also says Constantin Ciutacu[2].

According to the National Bank of Romania, in 2007, net inflows of foreign direct investments in Romania have amounted to 7250 million and in 2008 to 8645 billion Euros. The structure of FDI in 2007 shows that only 18% of the net flow was reinvested net profit, most, or 51%, consists of loans that foreign companies active in Romania take from the mother companies abroad. The remaining 31% of the net flow of FDI holdings of foreign investors is the capital of direct investment companies. During the first 11 months of 2008, the share of intra-group loans decreased to approximately 48% of total FDI, without limiting whatsoever the negative effect they have on the due date on the current account deficit.

Thus, estimates that foreign direct investment in Romania had the effect of widening the trade deficit as a result of growth in imports over exports.

Given the issues presented, we consider that in Romania, which is currently in stage two of the investment development cycle, massive penetration of foreign capital targeted to a greater extent, the activities incorporating a high local resources and mainly technology and knowledge, could promote improved quality of factors of production existing and creation of specialized factors of production. In this sense, both theory and economic practice, including the expertise of other countries of central and eastern European countries, shows that as the flow of increasingly large FDI will enter the economy, their impact on the economic environment, social and natural will depend significantly on government policies implemented.

As a result, the strategy of long-term development of Romania should be the priority axes on improving human and technological capabilities, the only viable option

[1] Dr in Economy, Constantin Ciutacu, head of National Economic Institute- The Paper „ Financiar", 28.01.2009

[2] Dr in Economy, Constantin Ciutacu, head of National Economic Institute- The Paper „ Financiar", 28.01.2009

to reduce disparities to other EU countries through the implementation of measures aimed at:

- improve human resource quality, by increasing investment in education, including those who pursue training of the workforce, whereas building a knowledge-based society is not possible under conditions in which education is only a marginal objective;
- the stimulation of research and development, including implementation of partnerships between the public and private sectors;
- encourage local initiatives by reducing bureaucracy and creating an effective administrative framework;
- encouraging companies and investors to develop activities generating high added value and invest in those activities that increase the comparative advantages of local resources;
- stimulation clusters based on training related activities, including through more active involvement of local government in solving problems and wishes of investors (the example of Hungary and Poland is relevant in this respect).

Thus, to obtain notable results in this direction in the application of more effective EU policy on state aid, including those relating to investment (domestic and foreign), by directing them to the priority objectives of the beneficial effects on long-term such as regional development, development of innovation and R & D, increasing training of the workforce, supporting small and medium enterprises constitute the backbone of the Romanian economy. It is essential to benefit from the opportunities that have emerged in Romania entering the European Union, by significantly increasing the degree of absorption of European funds and the efficient and effective use of them, covering the development of physical infrastructure and institutional.

In view of regional development by attracting FDI there should be a more active involvement of development agencies and the Agency for Foreign Investment (ARIS) in promoting the country as a regional investment area by developing punctual projects for pursuing the specific of the area and fully exploiting its potential, and identify and approach potential foreign investors.

For ensuring the security of the profits obtained to attract foreign investors, there should be a stable political environment.

Application of strict non-discriminatory rules and regulations in European competition, ethics and work environment protection, will create preconditions to minimize the negative effects of foreign direct investment on the economic environment, social and natural.

To reduce disparities compared to other European states, Romania has the objective need of foreign direct investment to complement and enhance local efforts, supporting competitiveness and efficiency of resources, assets and capabilities. Given both its own expertise and positive examples of central European states to maximize the ratio between positive and negative contributions of foreign direct investment requires government policy to promote appropriate use of smart-oriented flows of foreign capital as an instrument of development strategy.

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