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FOREIGN DIRECT INVESTMENTS IN THE ECONOMIC DEVELOPMENT OF ROMANIA

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Abstract:
The economic theories consider the investments as one of the major factors of economic growth. Economic growth represents a complex process of increasing the dimensions of the national economy, based on the collective use of increasingly efficient production factors, dimensions expressed by the size of gross domestic product and national income per capita.

Key words: *economic growth, production factors, investments, gross domestic product, region, direct foreign investments*

1. The investment process - main factor of economic growth

The restrictive definition of investments, as accumulation of production goods, has imposed over the time in the economic growth analysis. The investment depends on the perspectives of investor anticipated profit (managerial efficiency of the capital), this being the element took into account by any investor, when he is deciding to invest. Another important factor in the investment decision is the interest rate. In addition to the above, the following can be mentioned: monetary creation, existence of openings, market developments, etc., indicators that cannot be overlooked. Any investment represents an unpredictable and highly unmanageable variable, especially in short term. Therefore the effects of investments cannot be assessed in advance (Băcescu M, Băcescu A.C., 1997, pag. 213)

The investments act (Popescu O.D. 2005, pag.16) on the supply and demand.

The investments action on the offer:

a) Allows the capital increase and thus the increase of production capacity.

The „offer economists" Arthur Laffer and Thomas Gilder emphasized the effect of investments on the offer, considering that the supply determines the demand (through processing of Say's openings Law). The effective production will equal the potential production, when extra production factors are available, factors that contribute to the extra production achievement. Thus, the investments permit the increasing of the capital amount, the use of this plus of capital being a source of the economic growth.

b) Enables innovation. J. A. Schumpeter believes that the investment is the one that allows innovation. The entrepreneur who innovates benefits from a monopole situation which it will enable the rising prices and the accumulation of profit. Innovation means increasing of productivity.
c) Contributes to increasing of productivity. The investments allow the economic growth, because it exist growth investments, and therefore automatically exists a decrease in unit cost, thus an increase in competitiveness.

Regarding the *acting of investments on demand*, JM Keynes considered that the effective demand consists of consumption and investments, actually this being the engine of the economy. The main cause of fluctuations in economy is the variation of investments, according to the multiplier principle. This principle includes the existence of a strict causality between the variations in investments and variations in gross national product (GNP), which allows the equality between savings and investments, given the full employment of labour force.

The essential key to economic growth is the investment, because it acts both on demand and supply, the main elements of economic growth.

Until the modern era, the economic growth was based mainly on the extensive use of production factors. Later it was used the intensive economic growth, based on increasing the efficiency and quality of production factors: efficient combination of production factors, good organization, good use of managerial prerogatives etc.

Nowadays, the economic growth should be based primarily on the following qualitative factors:

- Directing the use of capital to net investments in expanding industries, for which is forecast the existence of markets, for acquisition of performance technologies, for promoting the invention;
- Improving the soil quality;
- Increasing the quality of labour resources;
- Maintaining a high level of demand, consistent with the maximum use of production factors, boosting the trend of specialization and expansion, with beneficial effects on the costs and allocation of funds for research.

The economic expansion is influenced by the investment process, as a dynamic factor, a new jobs creator, and creator of opportunities to assimilate the technical progress.

The government can stimulate the desire of investments by some measures that can be adopted:

- Promoting a legislation to encourage the competition, to encourage the foreign capital participation and to discourage the perturbing union action (laws that promote safety at work, fair wages, non-discrimination, etc.);
- Reduction of interest rate (increase of performance investments and thus increase of national income);
- Low taxes at least in the first years (reduction of taxes on the profit may result in growth of liquid capital, increase of investments and ultimately increase of the national income);
- Existence of a market large enough to which the Government will contribute by directing the expenditures towards items belonging to the industries of the future;
- Development of a banking system that is able to support the investors through long-term loans.

Practicing a protectionist policy, as the development of the national currency, can lead to reducing of imports and to increasing of exports and hence to increasing of national income.

2. Attracting foreign investment in Romania

The way of attracting foreign investment has been made with caution and in the general context of different periods passed by the Romanian economy.

The foreign direct investments in Romania have an important contribution to supplement the autochthon capital, being a source through which new technologies and know-how are implemented. It implements also a modern management and ways to change the attitudes and the social behaviour.

The main constraints in attracting foreign investments are the following:

- Unattractive business environment, mainly resulting from: the existence of an unstable legislative and institutional framework, the weak development of the capital market, the poor development of the banking system (exacerbation of the exchange rate, high inflation, discount rate and bank interest) and the image of Romania as result of its frequently changes in position (giving some facilities for the investors and then withdrawn them);
- Changing taxation and accounting systems. The vast majority of foreign investors are criticizing the Romanian fiscal policy, claiming that our country apply the added value tax and the profit tax at the highest level in Europe. The percentage of 24% VAT for Romanian products makes them less competitive on the market than similar foreign products, whatever they are made by Romanian or foreign producers;
- Slow rhythm of privatization;
- Lack of a coherent industrial policy. A coherent industrial policy would have allowed an active policy of providing incentives based on qualitative criteria and it

would have established a number of priorities in the development of industrial branches and sectors;

- Lack of a coherent industrial policy resulting in the absence of instruments (tax and financial leverages, possibilities for easing the access of foreign investors to Romanian market) that could have been used to carried it out. Using these tools, attracting foreign investments would have been accomplished by general promotion activities, improvement of consulting services and development of some projects at microeconomic level.
- Some concerns about the possibilities of foreign investors to purchase the land related to investment that they would have done it;
- Large number of public institutions and vast bureaucracy;
- A confusing legislative and institutional framework, contradictory and changing;
- Strong domestic demand contracted, low level of public and private investments and low gross domestic product (GDP) growth rate;
- Unpredictable fluctuations of the exchange rate affects the investments and the prices, an element that is the basis of the whole system of business management;
- The inflation rate influenced by the level of prices, the main cause being their liberalization while maintaining the market monopole, especially in electricity, natural gas and transports. Compared with other Central European countries, the highest inflation rate was recorded in Romania. For investors, the inflation was counterproductive. Due to inflation, the banks were forced to practice an interest rate higher than the inflation rate, to avoid the de-capitalization.

In Romania, despite these investment circumstances, there were great opportunities and attractive sectors for foreign direct investments: disadvantaged areas, industrial parks, small and medium companies, free zones, tourism and services, IT and high technology, oil and methane gas industry, agriculture and real estate domain.

3. Foreign direct investment at national level, as well as in South - West Oltenia development regions

According to the legislative package proposed by the European Commission on 6 October 2011 for the EU cohesion policy framework, for the period 2014-2020, the regions will be divided into:

- less developed regions: Supporting the less developed regions will remain an important priority of the cohesion policy. The process of catching up for the less developed regions from economically and socially point of view will require long-term efforts. This category refers to those regions whose GDP per capita is less than 75% of the average GDP of the EU-27;
- transition regions: This new category will be introduced to replace the current system of progressive phasing-out and progressive introducing of assistance.

This category will include all regions with a GDP per capita between 75% and 90% of the EU27 average;

- high developed regions: While interventions in the less developed regions will remain the priority of cohesion policy, there are important challenges that concern all Member States such as global competition in the knowledge economy and the transition to low dioxide carbon emissions economy. This category refers to those regions whose GDP per capita is higher than 90% of the average GDP of the EU-27.

The structure of FDI in Romania is clearly the result of the government policies in this area. It can be observed a great disproportion between the branches, which may be translated into a lack of interest for some of them. This lack of interest is manifested through extension from investor's part also, not just from policy maker's part. Although very important in the process of EU integration and national economic development, some branches have not benefited from specific policies and facilities to attract investments, the result being their poor development.

The research on FDI is performed based on the statistical data provided by the National Bank of Romania and the National Institute of Statistics. The final balance of FDI at the end of the year results from the addition to the initial balance of FDI net flow, as well as positive / negative valorise differences in revaluations induced by the exchange rate fluctuations and the prices of some assets, and accounting restatements of the initial balances value.

Gradually, during the transition years, there was a shift in investment flows, both internal and external, both private and state sectors, to those economy branches who adapted most easily to the requirements of the market economy. Directing the investments to those profitable and low risk branches was made by it-own, in response to the new geo-political and economical conditions, when the ideological barriers are no longer a problem. If we look at the share of investments in national economy branches, in the last three years, it is noticed a tendency to concentrate the investments especially in the industry sector. From year to year there is a slight increase in national investments directed towards the industry, while the agriculture and transports were disadvantaged branches, the agriculture remaining a branch with very small weight.

At national level, in 2011, the final balance of FDI was 55 139 millions Euro, the most attractive sectors of the economy being the industry (44,4%), trade (11,4%) and services.

In terms of the orientation of foreign investors to economic sectors (according to NACE Rev. 2), FDI were located mainly in processing industry (31,5% of total). Within this industry, the best represented branches are: oil processing, chemicals, rubber and plastics (6,3% of total), transport means (5,2%), metallurgy (4,9%), food industry, beverages and tobacco (4,1%) and cement, glass, ceramics (3,2%).

Other activities that have attracted important FDI are the financial intermediations and insurance (representing 18,2% of total FDI), trade (11,4%), construction and real estate (10,7%), information technology and communications (5,4 %).

In most areas of the economic activity, where FDI have important weight, can be noticed increases of the capital share in FDI enterprises, which means the continuation of the investment process in 2011. The areas that have registered the most important capital increases were the following: the industry (1 253 millions Euro) and in its frame, the processing industry (842 millions Euro), constructions and real estate (939 millions Euro), financial intermediations and insurance (913 millions Euro) and trade (409 millions Euro).

At the end of 2012, the final balance FDI reached the level of 59 126 million Euro, higher with 7,2 percent than the final balance of FDI for the 2011. Directing FDI on economic sectors (according to NACE Rev.2), was located mainly in processing industry (31,3% of total), especially in: oil processing, chemicals, rubber and plastics (6,7% of total), transportation means (5,4%), metallurgy (4,9%), food, beverages and tobacco (3,7%), cement, glass, ceramics (2,8%).

Other activities that have attracted significant FDI, in addition to industry, are the following: the financial intermediations and insurance (18,5% of total FDI), trade (11,4%), constructions and real estate (9,2%), information technology and communications (4,8%).

The shares of social capital (including reinvested profit) of companies, as foreign direct investment, have registered a value of 39 266 millions Euro (66,4% of the FDI final balance). The total net credit received by companies from foreign investors, including the group, reached the level of 19 860 millions Euro, representing 33,6% of the final balance of FDI. The net credit includes medium and long term loans and short-term ones granted by foreign investors to their companies in Romania, both directly and through other non-resident companies, which are members of the group.

The final balance of FDI on 31 December 2013 reached the level of 59 958 millions Euro, a slight increase over the previous year. The share to the own capitals (including the reinvested profit) of companies, as foreign direct investment, was at the end of the year 40 700 millions Euro (67,8% of the FDI final balance). The total net credit received by the companies from foreign investors, including those from the group, reached the level of 19 258 million Euro, representing 32,2% of the final balance of FDI.

In terms of the orientation of the economic sectors (according to NACE Rev. 2), FDI were located mainly in processing industry (31,1 percentage of total), followed by financial intermediations and insurances (14,2% of total FDI, slight decreases compared to 2012), retail and wholesale (11,2% of total FDI), construction and real estate (9,8%), information technology and communications (6,9% increase compared to 2012).

The territorial distribution of FDI for all activity sectors of the economy highlights some of the trends of investors, in the 90s. Therefore, are occurring centres of concentration of foreign investors in those geographic areas and historic provinces with rich economic potential and infrastructure or with historical traditions in certain activity sectors.

In terms of *territorial distribution* there are major discrepancies between the 8 development regions of our country (Table 1). In analysis of regional FDI dispersion it should be taken into account also that statistical research has located FDI by the registered social office of direct investment enterprises, which is not always the same place with the business place.

In 2013, in terms of territory, it is observed the orientation of FDI mainly to Bucharest-Ilfov development region (61.4%), other development regions benefiting from FDI being the Central region (8,6%), the South-MUNTENIA region (7,7%), West region (7,6%) and South East region (4,2%). The North East region is the least attractive for foreign investors, here only 2,8% of foreign direct investment was registered. The region is being followed by the SV Oltenia region (3,2%).

The final balance of FDI at the end of each year has registered small increases, in 2013 by 1,4% compared to 2012 and by 8,7% compared to 2011, 7,2% in 2012 compared to 2011, and in 2011 by 4,9% compared to the final balance of FDI in 2010.

From the FDI dynamic balance at the end of the year, it is noticed that there are two categories of regions: a category that recorded at the end of each year a positive net flow of FDI in the analyzed period 2005-2013 (Bucharest - Ilfov, Central and South Muntenia regions) and another category, which include the other regions, which has recorded fluctuated annual net flows of FDI.

Table 1: FDI balance at the end of the year, on development regions

- millions Euro -

	2005	2006	2007	2008	2009	2010	2011	2012	2013
North-West	1.257	1.570	1.907	2.108	1.940	2.232	2454	2814	2665
Centre	1.610	2.559	3.541	4.146	3.703	3.909	4215	4625	5179
North-East	292	411	672	1.136	975	1.244	1627	1767	1685
South-East	1.838	2.653	2.448	3.551	2.938	3.290	2970	3253	2529
Bucharest-Ilfov	13.264	22.205	27.516	30.594	31.699	32.720	34021	35859	36808
South Muntenia	1.388	2.228	2.942	3.411	3.576	3.816	4059	4230	4599
South-West Oltenia	745	938	1.379	1.226	2.058	1.928	1806	2068	1912
West	1.491	1.948	2.365	2.626	3.095	3.446	3987	5410	4581

Source: National Romanian Bank, annual publications "*Foreign direct investments in Romania*"

South - West Oltenia region envisages the following specific objectives:

- The changes to knowledge-based development, sustainable, and the achievement of an minimum economic growth of 4-5% per year, between 2014 and 2020, in such manner to eliminate the discrepancies between regions and to reduce by at least 50% the discrepancies with the European average;

- Achievement in perspective of a smart development, of 3-4% per year, of a competitive regional economy, in Europe and at international level, reaching a standard of living above the European average.

4. Conclusions

The economic growth process is influenced by both direct factors (quantity, structure and quality of human capital, natural resources, capital) and indirect factors. The last ones are acting through direct factors intermediating and potentiate or weaken their action, for instance: the technical-scientific progress, investment rate, the absorption capacity of the internal market, international economic exchanges.

Foreign direct investments represent an important element of economic development of any development region of our country and its functioning based on the principles of market economy. These principles have great importance for strengthening the economy of transition countries. The effectiveness of FDI depends on their quality and the sectors where they were are drawn.

Creating a favourable investment climate, making it more attractive for foreign investors, was and will remain one of the main tasks of economic policy of our country. In their development it should be taken into account the overall impact of FDI on the national economy, to refer to the creation and consolidation of the knowledge-based society, to promoting industries and directing more investments in the area of promotion of Romanian brands, increasing social responsibility, and development of a sustainable economy.

In terms of foreign direct investment dynamics in South West Oltenia region, it was noticed in 2005 - 2013 period an overall increase. However, in 2008, 2010, 2011 and 2013 negative net flows were recorded.

Despite the overall increase in foreign direct investments balance, South-West Oltenia region remains on the second lowest place among the regions of Romania in terms of attracting FDI, only the North-East region being less attractive to foreign investors. In this respect, sustained supplementary efforts are needed to attract FDI, being necessary the focus on locating investors in the region by registering their social office in one of the region counties.

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