IS ROMANIA AN ATTRACTIVE COUNTRY FOR FOREIGN INVESTORS?

PhD. Student Elena RUSU[1]

Abstract:
In a globalized world, where everyone is pursuing to enhance its own material well-being and establish international contacts, increasing the attractiveness of a country for international investment is becoming vital in order to remain competitive. In this context, the present article analyzes the investment climate in Romania during the 2007-2013 period. The first step to take in this process is to present the main elements that influence the economic attractiveness of a state. Secondly, it is necessary to specify Romania's position in international rankings in terms of investments attractiveness and the main factors driving it

Keywords: investment climate, competitiveness, foreign investment, economic attractiveness.

1. INTRODUCTION

Apart from driving economic development, foreign direct investments represents for the companies in which they invest an important instrument to modernize waste technologies, improve organizational management and increase the capital invested. Foreign Direct Investments inflows are stimulated and driven by the advantages of price differences in terms of production in another country, the size of the domestic market and its growth development, and possible new competition. Moreover, foreign investors are seeking new markets that could increase revenues and reduce their costs.

Investment climate assessment serves to express the attractiveness of an entity toward foreign capital. Various political, social, economical, cultural and judicial factors determine the investment behavior, namely: economic and political stability, independence of the judiciary, fair competition, favorable business infrastructure, transparency and access to marketplaces and resources.

The present study discusses the attractiveness of Romania as a foreign investment destination and the main elements driving it. Qualitative and quantitative research methods are used in this study and the combination of them will help us to determine the level of investment attractiveness of Romania over the period 2007-2013. Our main qualitative method is document analysis, a strategy that will permit us to investigate data presented in the official documents and other speciality paper for this research theme. Consequently, the data obtained are analyzed quantitatively, resulting in a comparative research contrasting different phases of Romania's investment attractiveness in time, but also with other countries, in order to observe the position of Romania at international level in terms of its attractiveness for FDI.
Qualitatively oriented approach to document analysis

[1] Faculty of European Studies, Babeș-Bolyai University, Cluj-Napoca, Romania, elena.rusu@euro.ubbcluj.ro

2. **ROMANIA'S ATTRACTIVENESS DYNAMICS OVER THE PERIOD 2007-2013**

Foreign direct investments require a long-term investment relationship between the two entities involved, resulting in most cases in a managerial influence of the investor over the investee company. Depending on the nature of capital, these may come from: up share capital and reserves of a non-resident investor who holds at least 10% of the subscribed capital of a resident company, credits between those two entities, and also reinvested profit. Thus, by the foreign inflow contribution to the capital, foreign direct investments may take the following forms: Greenfield (started from zero), fusions and acquisitions (total or partial takeover of some businesses from residents by foreign investors), and corporate development (increase in the capital of foreign investors in foreign direct investment enterprises.). In addition to capital, foreign direct investments have the advantage of providing knowledge, technology, contacts or a different type of organizational management. For this reason, investors are motivated to obtain a high profit over a long period of time from the company in which they invest [1]. Therefore, states and enterprises seeking to benefit from foreign capital must provide a high level of attractiveness to be chosen by the investors.

The attractiveness of a country for FDI is influenced not only by economic aspects, but also by adequate political or legislative frameworks. Thereupon, the countries with a developed or developing economy are favored compared to those one having high levels of corruption, costs (taxes), and a lack of infrastructure. To sump up, the attractiveness of a country is evaluated based on two elements: market (size, developing capacity, quality of the demand) and industrial opportunities (profitability potential influenced by the structure of the enterprise and by the available resources), as well as country risks (such as economic, political, social, operational risks etc.) [2]. For example, foreign investments in the natural resources sector are determined by the significant amount of resources that one country holds, or because they offer a more affordable, often better quality alternative compared to other states.

Foreign direct investments in Romania have entered in an upward trend starting with 2000, immediately after the opening of accessions negotiations with EU, but mostly because of rise in privatizations and greenfield investments. State stake accession to the European Union in 2007 led to intensify the reforms, the aim being to support the convergence of Romanian economy with the ones existing in the EU countries. Alongside with the adoption of the Community acquis, Romania must meet a set of criteria established by the European Commission such as: justice independence, fight against crime and corruption, as well as structural reforms required to increase transparency and accountability in public administration [3]. Respecting these recommendations not only ensure the accession to the European Union, but also helps to enhance competitiveness and attractiveness of the state.

According to the *World Investment Report 2008*, Romania positioned itself within the group of FDI inflows amounted between 1 billion and 9 billion dollars, along with countries such as Bulgaria, Portugal, Estonia, Latvia, Lithuania and Greece. On the other hand, in terms of FDI outflows, Romania was situated in the group amounted to less than 1 billion, along with countries such as Bulgaria, Lithuania or Malta [4]. Although, Romania was among the main beneficiaries countries of a high inflow of FDI, along with other states recently joined the EU in 2007, such as Poland, the Czech Republic or Bulgaria, however it is not present in top 10 most developed countries with a high level of FDI inflows.

The list of countries by received FDI during 2006-2007, ranked USA, UK, France, Canada, Netherlands, Spain, Germany, Belgium, Switzerland and Italy as the largest recipient of foreign direct investments in the world. [5]. Here, it should be noted that four among these countries, respectively France, Netherlands, Germany and Italy, are Romania's traditional economic partners and also its main foreign investors. Moreover, top 10 countries for FDI outflows are: United States, United Kingdom, France, Germany, Spain, Italy, Japan, Canada, Luxembourg and Switzerland [6]. Thus, it can be outlined that the main beneficiary countries of FDI are the same with the investor ones. In like manner, the final balance of the FDI for Romania in 2007 was 42 770 million euros. [7].

Romania's attractiveness for foreign investors up to date is influenced by a series of measures and elements, as for example: the intensification of the privatization process for a significant number of state-owned companies (Romanian Bank for Development, Society of Automobile Dacia SA - Pitesti, the national oil company Petrom SA), and the adoption of flat income tax of 16% in favor of the progressive tax rate to encourage foreign investments and business development.

Given these points, Romania maintains its position within the same category also in 2013 with a FDI inflow comprised between 1 and 9 billion dollars, along with countries such as Norway, Sweden, France, Greece, Portugal, Hungary and Bulgaria [8]. Accordingly, Romania remained constant in terms of the FDI inflows, keeping its position in the same category both at the beginning and end of research period, as a result of the economic crisis. Notwithstanding, in 2013 the National Bank of Romania together with the National Institute of Statistics, declared that the ISD net inflow recorded the level of 59 958 euros [9].

According to the below chart, in 2013, Romania was not among the top 10 countries to attract the highest FDI, but even so, companies with foreign still play a significant role in the economic activity of the country on the international level. Consequently, in 2013, companies with foreign capital accounted 67% of Romania's exports of goods and 64% of its imports. Namely, FDI in the manufacturing sector contributed 58% to Romania's exports of goods and 43% to imports, resulting in a net investment inflow of nearly 4.1% of GDP [10]. According to the *World Investment Report 2008*, Romania positioned itself within

Nonetheless, Romania remains on the 10th position in Europe regarding the number of jobs attracted by foreign direct investment in 2013, as stated in the annual report EY - European Attractiveness Survey. In addition, Romania has attracted in 2013 foreign investments which generated 6.157 jobs, but at a price down 13% compared to the previous year, when they generated 7. 114 jobs. By looking closer to the situation, it can be stated that in 2013 Romania ranked the third in top most attractive countries in Central and Eastern Europe for foreign investments after Poland and the Czech Republic.

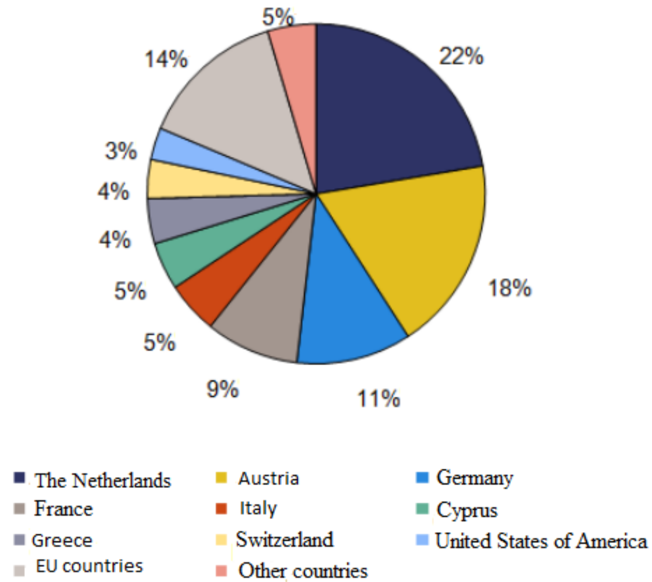

Fig. 1. The stock of foreign direct investment by country
Year 2013 [12]

The ability of a country to maintain prosperity over time competing with other states expresses its level of competitiveness and productivity. In *The Global Competitiveness Report 2006-2007*, Romania is in the second stage of development in terms of GDP (there are five stages: three fixed and two of transition), while the first stage represents the weakest states and the third stage is for the most developed ones [13]. Forwith, Romania ranked 68 according to the productivity index reports [14]. At that time, shortly after EU accession, Romania presented an ambitious reform agenda, but which raised suspicions regarding its ability to respond to the competitive environment of the Union and to assume the responsibilities resulted from this new status [15]. Unfortunately, the next period was marked by the global economic crisis and determined the adoption of a wide range of austerity measures in many European countries, including Romania, leading to a significant decline in foreign direct investment inflows. FDI inflows has fallen significantly in 2009 (from 9.496 million euro in 2008 to 3.488 million euro in 2009), reaching the lowest value in 2011 (1.815 million euro), followed by a slight recovery in 2012 (2.138 million euro), according to data provided by Romanian National Bank.

In line with *The Global Competitiveness Report 2013-2014*, Romania maintains its position within the second stage, along with other 30 state [16]. On the contrary, according to the Global Productivity Index, Romania has lost 10 positions, moving up to 76 place in 2013 compared to 2007 [17]. In recent years, European countries seem to experience a structural change characterized by the modernization of their economic structures, and this is particularly visible both in Romania and in other countries such as Slovakia, Ireland, Norway, Cyprus, Spain, Lithuania and Denmark [18].

Provided that Romania is positioned in similar categories with neighborhood states is proving that regional dimension is significant in determining competitiveness. For instance, the attractiveness to foreign investment is largely influenced by the lack of adequate infrastructure between the neighborhood states which makes it difficult for investors to penetrate in certain regions.

Romania attracts large inflows of FDI compared to other European countries, thanks to still-labor costs. As a result, FDI investments in Romanian companies create low-paid jobs in contrast to other countries from Western Europe, where the salaries are double-than-average. In order to bring added value to investments, it is important to polarize the labor market towards high skills and high wage in order to improve human welfare and raising living standards.

3. CONCLUSION

In the context of economic crisis resulted in lowering foreign direct investment in Eastern Europe, Romania manages to remain a favorite destination for foreign direct investment flows, showing a slow growth of its FDI since 2012. The attractiveness of Romania among foreign investors, based on FDI data, is largely due to low labor costs and high skilled workers, but also to natural resources abundance, because it reduces investment costs and guarantees a high profit. Moreover, Romania succeeded in attracting foreign innovation investments in areas such as software and business services.

Nevertheless, Romania's attractiveness for FDI is hindered by the lack of infrastructure, excessive bureaucracy and by an unfavorable business environment in terms of fiscal policy. Indeed, ameliorating these aspects, along with increased labor mobility and skills development, could accelerate economic integration and improve the investment climate.

In conclusion, Romania has become arguably significantly more attractive to FDI after joining EU. Reasonably improvement, but still more remains to be done in order to become a truly competitive state, both in terms of volume investments and benefits for the host country. Likewise, Romania would be a better negotiator if succeeds to attract highly qualified labor into well-paid jobs.

REFERENCES

[1] The World Bank - Berlin Workshop Series 2005*, Investment Climate, Growth and Poverty,* Washington, 2005, p. 22.

[2] Charles-Albert Michalet, Strategies of Multinationals and Competition for Foreign Direct Investment, The International Finance Corporation and The World Bank, Washington, 1997, p. 23.

[3] United Nations Conference on Trade and Development, World Investment Report 2007: Transnational Corporations, Extractive Industries and Development, Geneva, 2007, p. 62.

[4] United Nations Conference on Trade and Development, World Investment Report 2008: Transnational Corporations, and the Infrastructure Challenge, Geneva, P. 73

[5] United Nations Conference on Trade and Development, World Investment Report 2008: Transnational Corporations, and the Infrastructure Challenge, Geneva, 2008, P. 73

[6] United Nations Conference on Trade and Development, World Investment Report 2008: Transnational Corporations, and the Infrastructure Challenge, Geneva, 2008, p. 76.

[7] National Bank of Romania, *Investițiile străine în România la 31 decembrie 2007,* Bucharest, 2008, p. 2.

[8] United Nations Conference on Trade and Development, World Investment Report 2014: Investing in the SDGs: An Action Plan, Geneva, 2014, p. 77.

[9] National Bank of Romania, *Investițiile străine în România la 31 decembrie 2013,* Bucharest, 2014, p. 2.

[10] European Commission, Raportul de țară al României pentru 2015. Inclusiv un bilanț aprofundat privind prevenirea și corectarea dezechilibrelor macroeconomice, Bruxelles, 2015, available at: [http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_romania_ro.pdf], p. 28.
[11] Ernst & Young Company, European attractiveness survey 2014. Europe's 2013 FDI map and rankings, available at: [http://www.ey.com/GL/en/Issues/Business-environment/european-attractiveness-survey-2014-europe-s-2013-fdi-map-and-rankings], p. 4.
[12] European Commission, Raportul de țară al României pentru 2015. Inclusiv un bilanț aprofundat privind prevenirea și corectarea dezechilibrelor macroeconomice, Bruxelles, 2015, available at: [http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_romania_ro.pdf], p. 28.
[13] World Economic Forum, *The Global Competitiveness Report* 2006–2007, Geneva, 2006, available at: [http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf], p. 13.
[14] World Economic Forum, *The Global Competitiveness Report* 2006–2007, Geneva, 2006, available at: [http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf], p. 15
[15] World Economic Forum, *The Global Competitiveness Report* 2006–2007, Geneva, 2006, available at: [http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf], p. 32
[16] World Economic Forum, *The Global Competitiveness Index 2013–2014*, Geneva, 2013, available at: [http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf], p. 11.
[17] World Economic Forum, *The Global Competitiveness Index 2013–2014*, Geneva, 2013, available at: [http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf], p. 15.
[18] European Commission, Directorate-General for Research and Innovation, Innovation Union Competitiveness report 2013, Luxembourg, 2014, available at: [https://ec.europa.eu/research/innovation-union/pdf/competitiveness_report_2013.pdf], p. 8.