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The Role, Place and Relationships between FDI And GDP ror Romania between 2002 – 2010

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Abstract: The Foreign Direct Investments for the European Union reached a volume of 289 billion USD, while the mergings and acquisitions volume was 115.3 billion USD. The EU-27 states, including Romania, have lately experienced a constant evolution of th FDI flows and stocks, but they now seem to be the ones that face up some harsh times. International studies show that the FDI are attracted by factors such as labour force flexiblity and the depth of the financial sectors for the „tradable" sectors, and the quality of the judicial system and the quality of the infrastructure for the „nontradable" sectors. None of these four factors is up to the expectation for the moment in Romania.

Keywords: Foreign Direct Investments (FDI); Gross domestic product *(*GDP*);* Globalization

JEL Classification: G01; G32; F36

1. Introduction

„While investors are still concerned about the economic crysis, their trust is expected to rise in the near future". This is a conclusion in the United Nation Conference for Trade and Development – UNCTAD, concerning world investments. The insistence is upon the developing countries and the „green economy".

Global cashflows are steadily rising; this is one of the main conclusions in the 2010 World Investment Report, carried out by UNCTAD. Foreign Direct Investments (FDI) have risen in the first half of 2010 and they are expected to reach a volume of more than 1200 billion USD (866 billion EURO) this year, to approximatively 2.000 billion USD (1.443 billion EURO) in 2012, reaching the level of 2007.

In 2009, the FDI outflows were the witnesses of some significant constrictions, as a result of the economic activity, with a decrease of 43%, evaluated to 1.114 billion USD (804 billion EURO). The whole system was affected by the recession. The industry has experienced the decrease of the investment volume, with a 77% decrease, compared to 2008. This phenomenon seems not to have reversed. The investors priorities regarded other branches, such as electricity, gases and water distribution, electronic equipment, constructions and communications.

The Foreign Direct Investments for the European Union reached a volume of 289 billion USD, while the mergings and acquisitions volume was 115.3 billion USD. The EU-27 states, including Romania, have lately experienced a constant evolution of th FDI flows and stocks, but they now seem to be the ones that face up some harsh times. This happens due to countries with low economic development speed, as a result of the declining export opportunities on the most advanced European markets and the precarious situations of many national financial systems. This phenomenon lead to the decreasing FDI stocks in South – Eastern Europe with a percentage of 31.

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Regarding Romania, Valentin Lazea, Chief Economist of the National Bank of Romania, mentioned that „it is necessary for the Romanian state to improve its indicators and show that it is lead by the German model. Moreover, the advocates of the bigger budget deficits are fake friends of the private sector, because the bigger budget deficits means the eviction of the private sector favourable to the gouvernmental sector."

Doru Lionachescu, from capital Partners, has a similar opinion. Two directions of the economic performance and investment amenity took shape in 2010 within the EEC: the central European coutries – Poland, the Czech Republic, Slovakia, Slovenia and Hungary, which kept or even improvet their investment amenity due to the experience in crysis policies, and the South-Eastern countries,including Romania, with low performance and fiscal unpredictability. Romania ends 2010 with a dissapointing situation regarding all the investment amenity indicators, reported to the countries in the area, as well as compared to the performance in other years. The results of this significant decline of investment amenity of Romania, in the new world economic crysis circumstances, have developed in a fast way and are frightening, with a decrease of the FDI stocks of 30-40% from one year to another. Within the wide range of the foreign direct investments, the greenfield ones followed the trend of attention towards countries and areas with highly confirmed growth potential and financial predictability."

Unlike the private sectors in the Czech Republic, Poland, Slovakia and Hungary, which reported excedentary current accounts, the private sector in Romania reported a 7% deficit of the GDP. This difference did not attract foreign investors. Some of the reasons which made the investors ignore Romania in 2009 and 2010 are the current account deficit, the cumulation of external debt, the budgetar deficit and inflation rate. The current account deficit reached 5-5.5% in the early years of 2000, but went over 11% of the GDP in 2007 and 2008. In 2010, due to adjustments, it came down to 5%, Valentin Lazea said. „Without major public policies adjustments, Romania risks gathering only the crumbs on the FDI table." „The quality of the foreign investors that had arrived in Romania leaves much to be desired. The challenge is to attract the quality investors you need", Valentin Lazea said, regarding the speculative less export oriented investors. Romania has to focus on the consolidation of a new economic growth model, less based on consumption and more on productive investments and net exports. Have Romanians learnt that there are „productive investments and less productive investments? „. We are interested in attracting FDI stocks especially towards industry and tourism, and less towards constructions and services. Moreover, it is essential for the industrial companies in Romania to develop local research centres, so that they would be able to replace the old products with new ones. Concretely, when local resources are not sufficient, personal efforts towards competitivness can be completed by attracting FDI flows, especially towards intensive capital and tehnology activities, with high income returns. The analysis of the investment rate and FDI rate has emphasized the positive effects of the FDI inflows over the national economy. The investment rate grew by 11.1% helped by the increase with 3.04% of the FDI rate. Moreover, researches carried out showed that there is a certain relation between the brute composition of immovable capital and FDI flows. The increase in the FDI flows, combined with the changing structure of the FDI towards greenfield investments, proves that the influence of the foregn capital inflows on the brute composition of immovable capital is extremely strong. International studies show that the FDI are attracted by factors such as labour force flexiblity and the depth of the financial sectors for the „tradable" sectors, and the quality of the judicial system and the quality of the infrastructure for the „nontradable" sectors. None of these four factors is up to the expectation for the moment in Romania. This is why it is more than necessary to solve these problems in a concomitant way, and also adjust the macroeconomic indicators. Romania is on a chase for foreign investors attraction. The country depends in a essentaial manner on external savings, because we are not able to generate an ammount of money and neither to save some money. Lacking important foreign capital flows, the Government must counterbalance the current account deficit by using money from the international organizations.

The main factors that make the country attractive are the investment environment and the fiscal predictability, the infrastructure, the market dimensions and the economic growth potential. When considering Romania as a possible location for the development of their activities, foreign investors search for the advantages this country offers.

The advantage of Market and Location

- One of the largest markets in Europe;
- The gateway to the single EU market (access to 500 million comsumers);
- Attractive location;

The Resource Advantage

- Highly-qualified workforce with a competitive cost;
- High volume of natural resources;
- High touristic potential;

The Political Advantage

- EU member;
- NATO member;
- Stability guarant in South-Eastern Europe;

International Affairs Advantage

The Legislative Advantage

- Judicial purview by the EU model;
- The fiscal policy regulated by the Fiscal Code;

Other Advantages

- Highly developed communication networks;
- Highly developed industrial infrastructure, especially oil and petrochemistry
- The location of international banks branches and subsidiary.
- Extended facilities for sea and riverine navigation;.

2. The Relationship between FDI Inflows and the GDP

The decisive factors of the FDI are multiple, with economic, social and political origins. These factor can also have a significant influence on the FDI inflows and outflows. The proposed analysis is to prove the direct connection between the economic growth and the FDI flows. In order to do that, we used the GDP (table nr. 1) and the FDI (table nr. 2).

Table 1 The evolution of the GDP and FDI within the EU between 2002 - 2010

EU GDP (millions$	2002	2003	2004	2005	2006	2007	2008	2009	2010
	9589725	11713636	13559672	14206857	15160806	17581188	18886028	16944121	17125316

EU FDI (millions$	2002	2003	2004	2005	2006	2007	2008	2009	2010
	309490.3	266870.1	222595	496074.6	581718.9	850528.3	487968.4	346531	304689.2

Source: *www.unctad.org*

Table 2 FDI percentage withing the EU GDP (%)

EU GDP	2002	2003	2004	2005	2006	2007	2008	2009	2010
	9589725	11713636	13559672	14206857	15160806	17581188	18886028	16944121	17125316
EU FDI/GDP (%)	3.2	2.2	1.6	3.4	3.8	4.8	2.5	2.0	1.7

Source:www.unctad.org

An analysis has been made regarding the GDP for the large areas in the world, as well as for the European continent, with details for the EU countries. This analysis shows the evolution of the GDP between 2002 and 2010.

According to table nr. 1, one can notice that the GDP has significantly risen between 2002 and 2008, from 9.589.725 USD in 2002 to 18.886.028 USD in 2008[1].

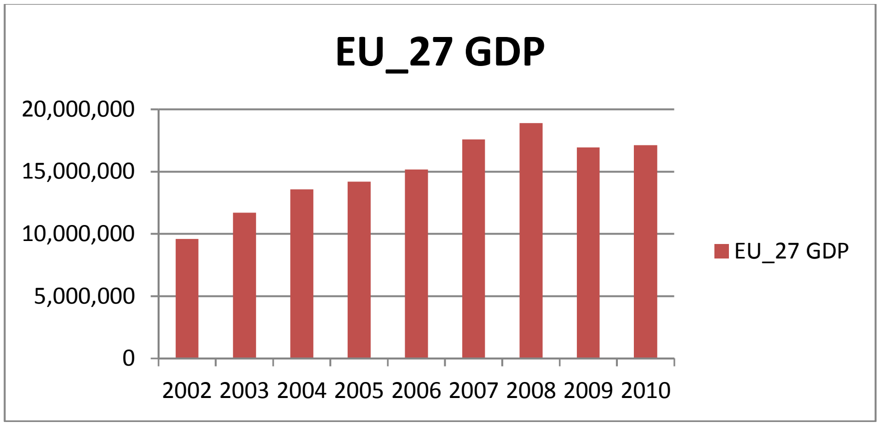
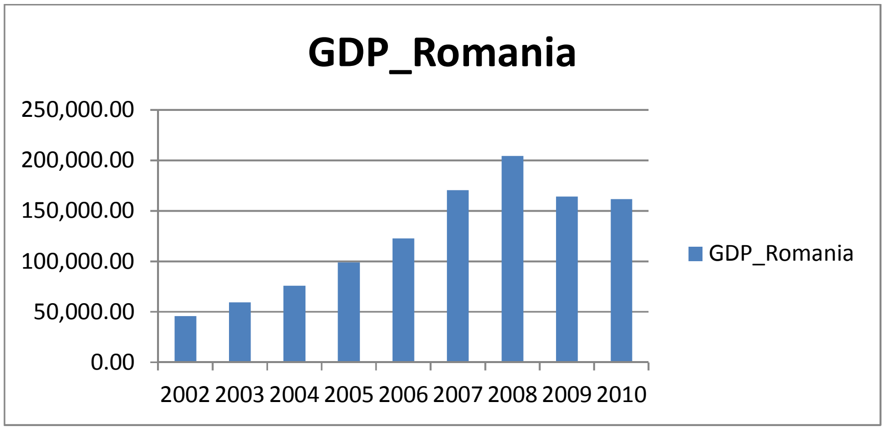


Figure 1. The GDP evolution in Romania between 2002 – 2010



Source: http://www.imf.org

[1] http://www.imf.org

If we look over the situation in Romania, we can observe that the GDP/capita in 2002 was 45988.51 USD, rising up to 204338.6 USD in 2008,and decreased in 2010 at 161629 USD. In order to conceive the analysis of the direct connection between the economic growth and the FDI flows, we will have to study the percentage of the FDI in the GDP total volume within the EU, and some of its members. We so analysed the percentage of the FDI in the GDP within the EU and its countries between 2002 and 2010

From table nr. 2 we can first notice that the FDI percentage in the EU GDP decreased from 3.2% in 2002, up to 1.7% in 2010, the most significant percentage being the one registered in 2007 – 4.8%.[1]

Romania didn't register a high FDI percentage, showing a decreasing tendency: between 2006 and 2007, the FDI percentage of the GDP reached 9.2% in 2006, decreasing to 5.8% in 2007 and the value in 2010 was of 2.2%, as shown in the next chart.

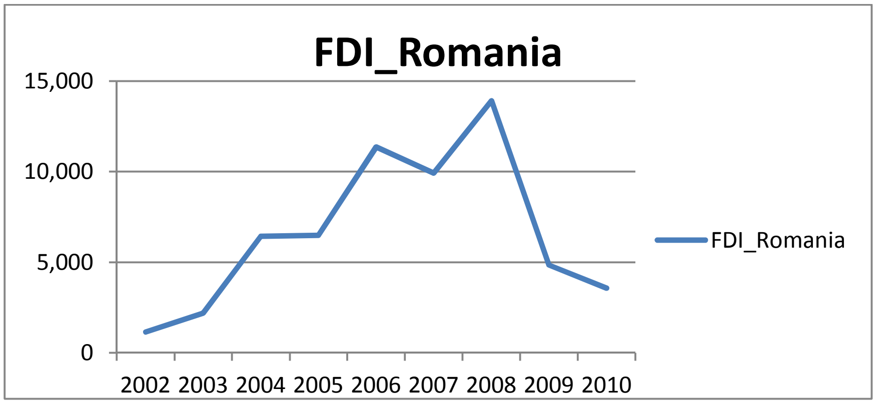


Chart 2. The evolution of the FDI in Romania between 2002-2010

Source: http://epp.eurostat.ec.europa.eu

Through the following tables and charts we will make an analysis of the situation in Romania, in order to observe the influence of the GDP growth between 2002 and 2010 over the rising of the FDI.

Table 3. The percentage of FDI within the GDP and GDP and FDI in Romania between 2002 and 2010

FDI/GDP (%)	2002	2003	2004	2005	2006	2007	2008	2009	2010
	2.4	3.6	8.4	6.5	9.2	5.8	6.8	2.9	2.2
GDP (millions $)	45988.51	59466.02	75794.73	99172.61	122695.9	170617	204338.6	164344.4	161629
FDI (millions $)	1140.652	2196.304	6435.591	6482.863	11366.87	9921.466	13909.99	4846.89	3573.297

Source : http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=96

http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

[1] http://epp.eurostat.ec.europa.eu

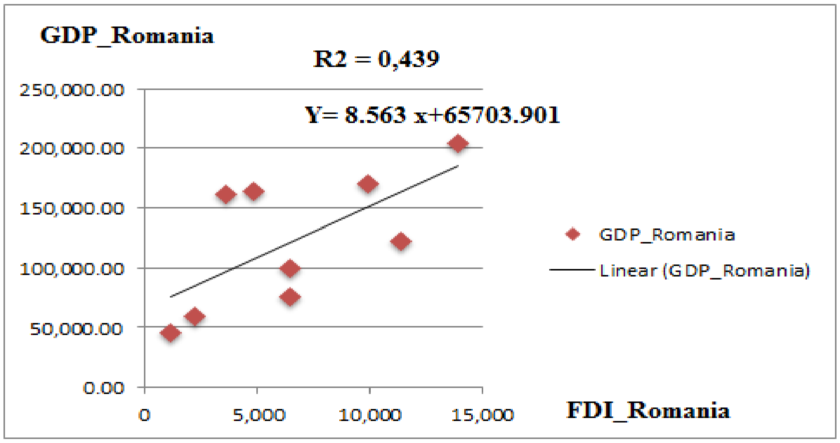


Figure 3. The correlation between the GDP and the FDI in Romania

Source: Own calculation from table 3

If we analyse the situation of the GDP and the FDI in Romania between 2002 and 2010, we can notice that a constant increase of the FDI has an unsignificant influence on the GDP. This phenomenon can be noticed in figure nr. 3. While the GDP increased from 45988.51 USD in 2002 up to 161629 USD in 2010, the percentage of the FDI within the GDP decreased from 9.2% in 2006 to 2.2% in 2010. In a atypical manner, the economic growth of Romania can not attract the FDI, investors being interested in factors such as the relative cost of workforce, the high level of qualification, the judicial undiscriminatory and attractive environment. The low costs of raw materials, utilities, and the cooperation of the public authorities with the foreign investors are also some attractive factors for the international market investors. We can assume that in the case of Romania there is a weak, unsignificant connection between GDP growth and the increasing percentage of the FDI within the GDP. Though, there can be an increasing trend of the gdp percentage of the FDI within the GDP, but not as a result of the increasing volume of the GDP. (Iacovoiu, 2006)

3. The Effects of Economic Growth Reported to the Variation of the FDI Flows

The bidirectional relationship between the foreign direct investments and the economic growth is seen as a result of their impact on the economic environment in each country and as a result of the positive influence the economic sustained growth has on the received foreign capital flows. According to the specialists, given a certain country, the intense periods of economic growth are characterized by the process of attracting some important FDI flows. (Lipsey, 2000) At the same time, the investments, both local and foreign, represent an essential factor of the economic growth, the elaborated models tend to reflect the real functional connection between the accumulation rate and the growth rhythm of the national income.

The potential positive impact of the attracted FDI in a certain country on its economic growth must be seen as the result of the GDP redistribution of the implanting country following the interest of the investing international companies. Against the background of the pronounced process of globalization, sustained by the internationalization and the diversification of the production, the transnational companies gain more significant profits in other countries than in their own countries, as a result of the lower costs of production. Consequently, for a similar selling price of their products, the value-added of the production in the foreign country includes a more significant profit than the one in the country of origin of the transnational companies, so that, through the performed FDI flows, these companies represent a redistribution factor of the GDP in the hosting countries.

The empirical data regarding the Central and Eastern Europe countries that are the subject of the analysis emphasize the main trends for their evolution beginning with the year of 2002.

Table 5 Real GDP growth rate in Romania between 2002 and 2010 (percentage)

Real GDP growth rate in Romania 2000-2010 (percentage)	2002	2003	2004	2005	2006	2007	2008	2009	2010
	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.6

Source:http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsieb020

Most of the central and eastern european analyzed countries, respectively Estonia, Hungary, Slovakia, Bulgaria and Romania experienced a significant economic growth, with a yearly percenty of 2.8%. By comparison, the Czech Republic, Slovenia and Poland experienced a moderated economic growth, with a yearly percentage of almost 3.6% between 2002 and 2007. (Lipsey, 2000)

Correlating this trends with the data about the implication of the foreign direct investments in the national economies, we can notice that in the case of some central and eastern european coutries, the attracted foreign direct investments contribute in a significant manner to the economic growth, while, in the case of other states, the influence of the foreign direct investments on the economic growth has been less significant. In the case of Estonia and Hungary, countries with significant foreign direct investments inflows, with a GDP percentage of more than 70%, the accentuation of the economic growth has had a positive influence over the inflows of foreign capital. As an example, beginning with the year of 2000, when the attracted foreign direct investments flows reached significant volumes, Estonia has reporterd yearly economic growth of more than 9%. At the same time, the developing economy attracted larger foreign capital flows, so that, by the year of 2006, the attracted volume of foreign direct investments flows represented almost 77% within the GDP. The slowing down of the eonomic growth between 2001 and 2003 resulted from the worldwide economic decline (the growing price of the oil, the declining investment volume, the terrrorist attacks in September 2001 against the United States of America and many others). A similar evolution, but on a lower scale, could be noticed in the case of Hungary, where the significant volume of foreign direct investment flows generated training effects, speeding up the process of economic growth, with positive influence on the foreing capital inflows. Although Romania has had a high rhythm of economic growth, with a yearly GDP growth rate of 5.1%, the economic growth had not been sustained as well by the foreign direct investments. By the year of 2006, the foreign direct investments percentage within the GDP reached almost 9.2%, under the EU-25 European average of 38%. By comparison, the accentuated economic growth in Bulgaria was sustainted in a significant manner by the foreign direct investments, that also had influence on the foreign direct investments inflows.

As a consequence, within the globalization and concrete economic integration contexts, the foreign direct investments sustain the economic growth, mainly on the internationalization of the production, depending on the concrete conditions existing in each country. In this respect, the best example are the Central and Eastern European economie, which can be separated in two categories (Bonciu & Dinu, 2003)

1. Economies where the foreign capital flows were sufficient so that they could generate training effects in order to speed up the economic growth process, such as Estonia, Hungary, the Czech Republic, Bulgaria and Slovakia;

2. Economies where the high rates of economic growth could not be sustained in a significant manner by the foreign direct investments flows, such as Romania;

Under a conceptual aspect, the foreign direct investments suppose the internalization of some tangible and intangible assets under the following circumstances: the involved economic agents must be situated in different countries; the interest of the investor must develop on a long period of time; the investor must exert the control over the assets that represent the subject of the investment.

4. Conclusions

Through the foreign direct investments, the companies intend to gain the most significant profit by turning on to their own advantages. As a result, these companies tend to internalize the external markets, generating inflows of goods, services, know-how etc. Therefore, companies carry out foreign direct investments when they dispose of the advantages that can bring a more significant profit abroad, showing that a certain development level had been reached in their own countries. The economic development level influences both the volume and the structure of the foreign direct investment flows generated and attracted by a country. In this respect, the carried out analysis have shown that there is a bidirectional connection between the economic development level of the Central and Eastern Europe countries and their attracted foreign direct investments volume. Thus, the existing initial gaps regarding the attracted foreign direct investments volume were reflected in the development level of the countries in the European Union, which influenced the inflows of foreign capital. The decision of investing in a certain coutry is based on a detailed analysis of local factors, the advantages of the host country, correlated with the needs of profitableness of the economic agents and the intensity of the afferent risk of performing on a foreign environment. The weight of each factor making the decision of investment depends on the foreing investors' motivation. Within the present context, of the global market economy, when every own advantage can vanish very fast, these motivation must be strongly argued.

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