

RECENT TRENDS IN FOREIGN DIRECT INVESTMENTS IN ROMANIA

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1. FDI - a brief overview

International trade activity is not in any way a recent phenomenon. The Phoenicians and the Carthaginians depended heavily on international trade in the Antiquity. This business activity included foreign direct investments, joint venture¹ and strategic alliances, among other forms of internationalization (Moore and Lewis, 1999). In addition, a number of multinational corporations can be found in Europe in the Middle Ages and in the early modern era (Dunning, 1993; Jones, 1996).

The origins of modern international business are associated, however, with the industrial revolution. Multinational corporations (MNC) originate in the massive capital flow in the nineteenth century (Dunning, 1993, p 99). Searching for resources (resource seeking) was the main triggering factor of the FDI, although until 1850, very many firms have crossed the Atlantic, toward east and west, making investments in order to conquer new markets (Dunning, 1993, p.100, Jones, 1996, p.5). In spite of the presence of FDI, -until late 1940-, most of these firms

were portfolio investments. As a result, the subject of international affairs failed to notice in the economic theory until the late 50's. On the one hand, they did not perceive the phenomenon as having a major economic impact, and on the other hand, the neo-classical theory, based on the assumption of perfect markets and international immobility of factors, had not easily incorporated the multinational activity.

The FDI volume growth that followed the Second World War highlighted the inadequacy of neo-classical theory in the attempt to explain this phenomenon and the need for a completely new approach. Not only has the FDI increased, but also the focus on primary goods diminished and the production of goods based on knowledge (knowledge-based products) has intensified in other developed countries. Moreover, important changes occurred in the international business organization, namely the development of horizontal CMN and new vertical Japanese foreign direct investments (Dunning, 1979, pp.270-2, 1993, pp.126-7).

«Accordingly to a very generic definition, we characterize investments based on an initial commitment of resources, followed by a subsequent recovery, which, in time, should exceed that commitment" (Dâmbean-Crete, 2000, p 9). In other words, the investment represents the use of assets in order to gain profit. When the investor takes control and has the ability of decision making onto the receiver activity, we are dealing with a direct investment.

Defining Foreign Direct Investment (FDI) has a variety of forms,

¹] contractual agreement by which more people agree to undertake (simultaneously) an economic activity subject to a conjugated control. One may conjugate the control of an economic activity when it is fellow-like exercised, under a contractual agreement. None of the entrepreneurs is unilaterally able to control the activity of the joint venture. Such control may occur in companies with a controlling shareholder. The conjugated control does not mean that all business decisions "joint venture" are voted unanimously. Contractual agreement can distinguish decisions that require the approval of all the contractors and those that can be approved by a determined majority.

on an international scale there is no accepted definition. Definitions provided by international and national organizations establish certain percentage of a company's capital that the foreign investor or minimum thresholds in national or foreign currency can own. Foreign direct investments are defined by the United Nations Conference on Trade and Development (UNCTAD, 2008, p 249) as investments "involving a long-term business relationship, reflecting a lasting interest of an economic entity (direct investor or parent enterprise), as well as its control over the enterprise in a country other than that of the investor (affiliated company)". Therefore, FDI suppose, the exertion of a significant influence of the investor over the company's management resident in the foreign economy. Such investments involve both the initial transactions between the two entities as well as those taking place between them and their subsidiaries.

One may achieve foreign direct investments mainly through mergers / takeovers of companies, new investments, loans and other capital transfers between affiliated companies, the reinvestment of profits. Sometimes, a direct investment has a substantial component of "investment portfolio". FDI has three components: participation to a company's social capital, reinvested earnings and intercompany loans.

According to the Code of the Organization for Economic Co-operation and Development (OECD) of the liberalization of capital movements, "the investment made in order to establish lasting economic relations as well as the investment which gives the ability to influence the management, is carried out in a host country by non-residents or, by residents abroad: -

-The creation and the extension of a company, subsidiaries, branches (owned 100%) or the purchase of the entire stock in an existing company;

-The participation in a new or existing company;

"In accordance with the legislation in force in Romania (GEO 92/1997), direct investment represents the "participation in establishing or expanding a business in any of the legal forms provided by the law, the acquisition of shares of a company, except investment portfolio, as well as the establishment or expansion of a branch by a foreign company in Romania, through:

- Financial contribution in national currency or in convertible currency;

- Contribution of real estate and / or personal property, tangible and intangible;

- The contribution to the growth of enterprise assets by any legal form.

The particularity of FDI is the "control exercised by the investor over the assets in which the investment has been made, a control emphasized by all definitions. FDI consist in the transfer of "industrial package" which include capital, technologies, methods of industrial organization, managerial expertise, marketing knowledge etc., which allow the investor to exercise the right to control over the investment. However, it is difficult to determine what control means. It is rather a direct involvement in the management and organization of production asset investments. "(Negritoiu, 1996, p 53). In other words, "foreign direct investments are an extension of the original companies in the host country, being the advantage of multinational corporations." (Cerna, 2006, p 221).

2. The effects of FDI

2.1 The effects of FDI on firm investing

Along with globalization, more and more firms extend their activities by setting up foreign subsidiaries through the merge with foreign companies or the

purchase of foreign companies. These firms, in particular multinational companies, acquire from these efforts, a number of benefits or advantages that stimulates them to conduct the business in that manner. The most significant identified effects are located in the field of *marketing, production and financial activity*.

In the field of marketing, the most important benefits are:

- the possibility of selling the products on a much larger market;
- extended cost reduction;
- increasing profitability.

Moreover, we can guide the company's consolidated revenues through cross marketing strategies to sales development to the most profitable markets. *"Such marketing strategy deals not therefore market segments according to the characteristics of each country, but rather according to those differences between buyers, which transcend national borders"* (Cerna, 2006, p 231).

In the production area, the essential advantage of FDI is that allow the creation of products at lower costs. Thus, (trans-border) multinational companies have faster access to the most convenient means of production (raw materials, equipment, workforce, etc.), through the development of global communications, the global organization and global access to financial resources. In addition, in terms of organization, there may also take place strategic alliances between such firms.

In financial terms, globalization implies capital flows detached from the territorial area of a country. Currency becomes a virtual one, funds can be transferred over long distances, and electronic payments take place at high speed. In these circumstances, the financial markets are held in virtual space, so that firms would be able to change their financial asset portfolio based on their profitability or, they can appeal to a wide range of grant funds

according to certain costs, in order for the financial structure to be optimal.

2.2. Effects of FDI on host countries

The FDI have significant consequences on the economies of host countries among which, the most important are related to labor productivity growth through transfer of know-how, technology, management and marketing skills, increasing technological progress and long-term growth in the developing countries.

The up-to-date literature that includes the analysis of the impact of foreign direct investment (FDI) on the effects of FDI host countries classifies the consequences as direct / indirect and horizontal / vertical. In addition, FDI can produce both positive and negative effects on the economy especially over domestic firms.

The *direct effects* are employment, the increase of commercial transactions volume, the capital formation (e.g., many developing countries have attracted foreign investors in the manufacturing sector in order to gain a vital capital needed for the development of this industry). While in some countries these are the most important effects of FDI (especially in poor countries with high rates of unemployment), there are some *indirect effects* such as the transfer of technology and managerial skills to local firms. We also call them demonstration effects (Gunther J., 2002). The capital from abroad has the advantage of possessing superior technology, marketing and management skills, and if they are transferred to branches, (i.e. they are brought in the host-country's market), domestic firms oversee the actions, the abilities and the superior technologies of the foreign firms and they are striving to imitate or to acquire in order to maintain their competitiveness.

Moreover, one can find situations, in which employees of the

multinationals companies who trained there, open their own companies or move to domestic firms. Thus, one may consider that multinationals produce positive effects on the internal companies through competition, the latter being forced to increase efficiency and therefore productivity, adopting new technologies earlier than the absence of foreign investors on the market (Kokko, 1994).

We can see this transfer of technology, managerial and marketing skills superior to local firms as an important externality related to productivity, and researchers show that these indirect effects are the most important reasons in attracting foreign investors, given the willingness of developing countries to implement technological progress in the economy and in certain industries. Bolmstrom and Kokko (1998) show that these positive externalities related to productivity can lead over time to the improvement of the comparative advantage of the economy.

The up-to-date literature refers to some *negative effects* related to productivity, where the presence of foreign firms in the market causes reduced productivity of the domestic firms. This happens especially when foreign firms produce for the local market. Disrupting the host country market, foreign companies entering the market may force domestic firms to produce less, which would increase the average costs and hence the reduction of productivity.

The return to the starting position on the market depends mostly on incorporating the technological progress, which increases productivity. This effect is also called "market stealing". Thus, the competition made by foreign firms may have both positive and negative effects on the productivity of domestic firms, depending on economic conditions in the host country and the characteristics of FDI (Le ThanhThuy, 2005, Ruane and Ugur, 2005).

The economic theory has two approaches concerning the study of the effects of direct investment on the host country. One of them stems from the "*theory of international trade*," initiated by McDougall in the 60s. This theory is a type approach comparative static balance, examining how we distribute the marginal investments abroad. The model built on this theory assumes that the influx of foreign capital through foreign direct investment or portfolio increases the marginal productivity of labor and the reduction of the marginal productivity of capital in the host country.

The second approach starts from the "*industrial organization theory*", developed by authors such as Hymer, Buckley, Casson, Dunning. In context, these authors raise the question of reasons why firms choose to invest abroad in order to produce the same goods, which, they produce in the home country. The plausible answer that they have found is that foreign investments are made when there are a *market imperfection consumer goods or factors of production*, including technology.

Both theories take into consideration that the *major effects exerted by foreign direct investment on host countries' economies* are the following two:

✓ The Voluntary and involuntary diffusion of technologies. One may notice that the term "technology" is quite abstract and difficult to observe and assess. However, we can say that the multinationals companies produce new technologies through personal effort; research bases are located in the home country of the investor, while we found production and labor employment in the countries chosen by the investments.

We should mention that although we cannot say with precision what is the method of distributing the technology in the world and what is the role of multinational firms in this process, however, we can synthesize two ways of spreading:

a. the *formal* channels, where the role of multinationals is active; they are acquiring a part of the capital of domestic enterprises by joint-venturing companies;

b. the *informal* channels, where the contact with local companies is made through manufacturing licenses, scientific exchanges, etc., it also shows that multinational companies contribute to solving local technological problems, ensures the training of the employee, enhances competition, provides technology transfer for inventory management and quality control, realizes the standardization of distribution and marketing techniques, causes local firms to improve their management etc.

✓ 2. The Stimulation of local companies:

a. the *superior knowledge acquisition* to those owned by multinational level without incurring a cost which could lead to the loss of the full benefit;

b. supporting the local and foreign suppliers, increasing the number of production units;

c. *increase of productivity, quality and product diversity.*

The essence of foreign investment is not therefore the production activity itself, but it is taking managerial control and coordination of several activities undertaken by a multinational company in different countries.

According to UNCTAD, the countries that attracted the highest volume of foreign direct investment are U.S., UK, France, Belgium, Luxembourg, Netherlands, Germany, Canada, Spain, Italy, Sweden, China, Hong Kong, Brazil, Bermuda, Poland, Singapore, South Africa, Chile and the Czech Republic.

In the literary field, one can analyze the impact of FDI from several perspectives. Some research studies are devoted to the impact of FDI on economic growth, social and economic development and combating poverty. There are studies realized for the economies of countries such as Vietnam, Nigeria, Indonesia, Taiwan, the region of

sub-Saharan Africa, Bolivia, Argentina, Mexico, etc. Much of the research debates the impact of FDI on the labor market and in particular:

-*employment* (researchers study the effect of allocation - reallocation of labor as a result of investment flows from developed countries towards developing or underdeveloped ones- the impact of FDI on employment in the host country and the parent country);

- most of the research on the impact of FDI deals with *externalities related to labor productivity* (there are studied both positive effects (*positive productivity spillovers*) on local firms and, negative generated by competition; a part of the studies also focuses on studying technology transfer as a driver of productivity growth (technological spillovers) while others are focused on knowledge transfer of marketing and management skills;

-the lack of equality of incomes and wage negotiations with the unions.

3. Net flow and FDI balance in Romania, 2003-2010

After 2008, strongly influenced by redefining the global economic parameters with immediate impact on the growth of foreign capital drawn in the economy, Romania has followed the global trend concerning FDI development. Lower overall profits, reduced access to funding, and the enhancing perspective of crisis, led companies that have decided on expansion in recent years to choose instead prudence and expectation. In this way, in the past the reduction of the allocated resources for development and expansion in foreign markets has directly reflected into a decreased flow of capital placed abroad.

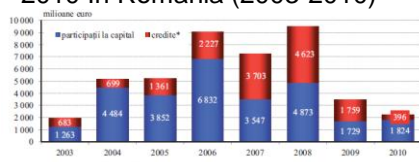
Under these conditions, *the net flow of FDI* in 2010 showed a level of 2.22 billion Euros, as structured (see Chart no.1):

- net holdings of foreign direct investors in capital direct investment

enterprises in Romania worth 1.82 billion Euros (representing 82.2% of net FDI flow);

- net credit² given by direct investment enterprises from foreign direct investors, including the group amounted to 396 million Euros, representing 17.8% of net FDI flow.

Chart no. 1 The Evolution of FDI- 2003-2010 In Romania (2003-2010)



* creditele nete de la investitori străini direcți

Source NBR (2011, p.17)

Annual FDI flows in the form of equity and loans are characterized by the existence of the following stages (Zaman et al., 2011):

- 2003-2006, when the total annual FDI flows increased from 1.94 billion Euros to 9.05 billion Euros, due to large privatizations in the banking and industrial sector (oil and petrochemical, metallurgy, machine building);
- 2007-2008, when they continued privatization in the banking sector and in the utilities and energy areas, 2008 was the peak year for FDI, with a volume of 9.49 billion Euros.
- 2009-2010, when the total annual volume of FDI fell sharply from previous years reaching 2.22 billion Euros in 2010, it reflected the impact of the economic and financial crisis.

The *final balance of FDI* results from the addition to the opening balance of net FDI flows and value differences (positive / negative) revaluations resulting from changes in the exchange rate and prices of assets as well as the accounting

²The loans received by direct investment enterprises from the foreign direct investor or in the group of non-resident companies, except the loans undertaken by the direct investment foreign investor or another company within the same group of companies.

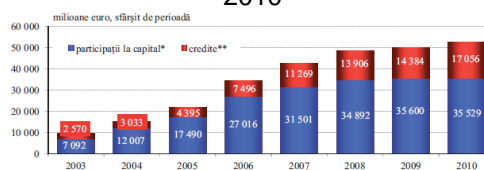
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restatement of the value of the initial balance.

At 31 December 2010, the final balance of FDI recorded a level of 52.585 billion Euros, up 5.2% than the final balance of FDI in 2009 (see Chart 2).

Equity stakes (including reinvested earnings) of direct investment enterprises in late 2010 had a value of 35.529 billion Euros (67.6% of the final balance of FDI) and total net credit received from foreign direct investors, including the group, recorded the level of 17.056 billion Euros, representing 32.4% of the final balance of FDI (NBR, 2011).

Chart no. 2. The evolution of FDI in 2003-2010



Source: NBR (2011, p 17)

The year 2008, marked by the end of the financial and economic crisis meant the beginning of a balance of cumulative FDI of very small increments. Equity, between 2009 and 2010 remained almost unchanged (Chart 2). The volume of loans increased, which indirectly leads to the conclusion that in this period, foreign companies have substantially reduced or even ceased net realized investment incomes, some being heavily affected by their losses (Zaman et al., 2011).

If equity's stakes of FDI companies does not imply their reimbursement, net credit is flow to these companies, a flow that has to be repaid as an interest as well as bank charges. Their volume varies over time and in this matter, the parent company that credits plays the key role (Desai M., 2003 Fortanier S., 2007, Gorter J., Parikh A., 2003).

Throughout this entire viewed period, FDI equity interests, including profits reinvested in Romania increased 5

times, while credit volume increased 6.3 times. This betrays high credit need of its subsidiaries, particularly in the years of crisis, but it is also an additional interest of the parent company to realize net interest incomes, which, on the Romanian financial market is relatively high compared with those of the country of origin or others.

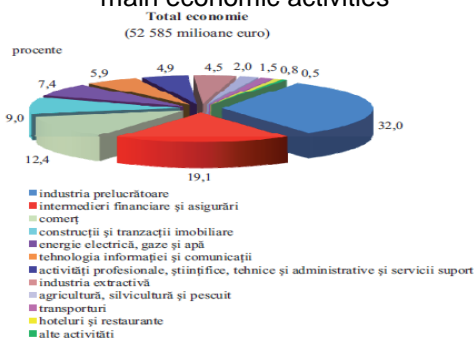
4. Distribution of the FDI on the major economic activities in Romania

The evolution of FDI on main economic activities in Romania during 2007 - 2010 as the first phase of the national economy to EU accession period, has recorded a 50% impairment annual decrease in the volume of FDI during 2009-2010 compared to previous years. The economic crisis has negatively affected FDI flows to Romania, contrary to initial predictions according to which the EU accession, both nominal and real integration were considered as an element of growth as well as a "shield" against external shocks. In fact, the crisis has affected not only the Romanian economy, but also that of other EU member states, which led to a decline in GDP of -7.1% in 2009 and -1.3% in 2010 (Zaman et al., 2011).

In terms of FDI, in 2009, the area most affected by the crisis were metallurgy, food, beverages and tobacco, wood products, including furniture, computers, radios, TV, communications, textiles, clothing, leather, financial intermediation and agriculture. In the field of construction and real estate, we recorded the biggest decline in 2010, with a gap increasing year by year. By default, the decrease in FDI has negative repercussions on the dynamics of production and exports of these industries and their competitiveness. Concerning guiding the foreign direct investors towards economic branches (Chart no. 3), FDI were located mainly in manufacturing (32% of total). In this industry, best-represented industries are

petroleum-processing, chemicals, rubber and plastic products (6.9% of total), metallurgy (5.3%), means of transport (4.9%), food industry, beverages and tobacco (3.9%). Other activities that have drawn significant FDI financial intermediation and insurance (19.1% of total FDI), retail and wholesale (12.4%), construction and real estate (9%), information and communications technology (5 , 9%).

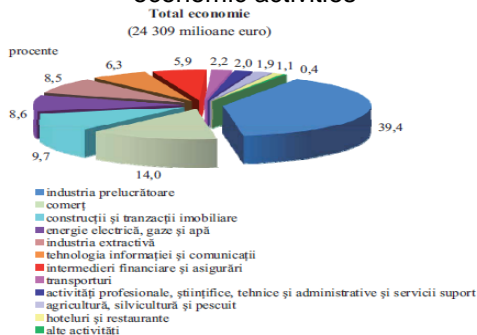
Chart no. 3 The FDI Stock at December 31, 2010 - Distribution according to the main economic activities



Source: NBR, 2011, p.18

Given the key role in the economic growth of *tangible and intangible assets* as well as the long-term character of FDI, we will highlight the percentage of these categories of final destination of FDI investments in late 2010 as well as the distribution of their main economic activity (Chart no. 4). Thus, it appears that tangible and intangible assets with a balance at the end of 2010 of 24.309 billion Euros represent 46.2% of the total FDI, inducing a considerable degree of foreign investment stability. Economic activities in which FDI is reflected in tangible and intangible assets at important level are industry (26.1% of total FDI), and namely manufacturing (18.2% of total FDI), retail and wholesale (6.5%), construction and real estate (4.5%).

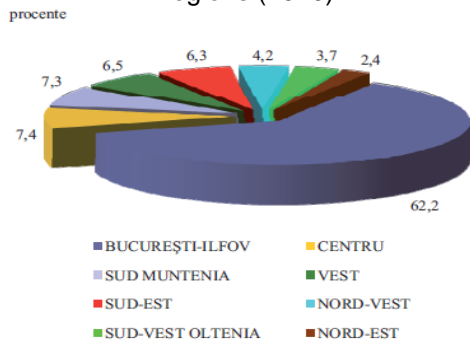
Chart no. 4 Tangible and intangible assets at December 31, 2010 – Distribution according to the main economic activities



Source: NBR (2011, p 19)

In terms of territory, we can observe the orientation of FDI towards Bucharest-Ifov (62.2%), other developing regions which encourage FDI in a relatively large extent are the Central region (7.4%), South Muntenia (7.3%), Western Region (6.5%) and South East (6.3%). North East is the least attractive to foreign investors, being recorded only 2.4% of foreign direct investment (see Chart no. 5). The analysis of territorial dispersion of FDI should be borne in mind that this statistical survey of registered office has located the investments after the headquarters of direct investment enterprises, which do not always correspond with the location of the economic activity (NBR, 2011, p 10).

Chart no. 5. The distribution of FDI by regions (2010)



Source: NBR (2011, p 19)

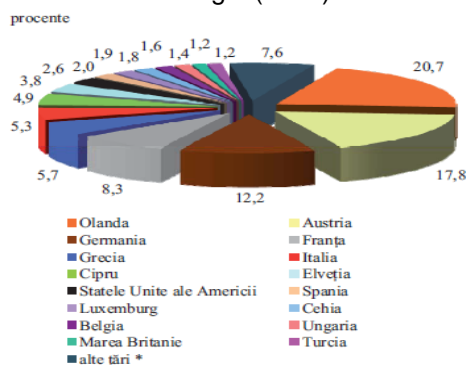
Given the high degree of concentration of FDI in Bucharest, you may ask whether it is not rather an enhancement factor of regional economic disparities than one of mitigation. The concentration of FDI in Bucharest-Ifov region is due to infrastructure conditions and generally relatively attractive business environment. The Sectoral Operational Programme (SOP), particularly the Operational Programme of Regional Development 2007-2013, co-financed from structural funds and cohesion, is just one factor counteracting this regional concentration of FDI. Yet, the absorption of structural funds is low, so we cannot speak of a substantial contribution to the development of balanced territorial disparities of Romania and reducing inter and intra regional gaps. (Zaman et al., 2011).

The impact of FDI on regional economic development of Romania would be possible to register after Kuznets³ curve evolution. Now, one may remark only four regions (Bucharest-Ifov, Muntenia, West and South East) as "growth poles" with financial and economic achievements superior to other regions.

We can observe the distribution of FDI according to countries of origin of capital in Chart no. 6. All the countries of origin of foreign direct investment of 100 million Euros are highlighted. The distribution took place according to the country direct holder of at least 10% of the share capital of resident direct investment enterprises.

³ U-shaped inverted, Kuznets curve suggests that at the beginning of increased welfare, the environmental damage is increasing only to a threshold, after which the condition of the environment begins to improve through nonlinear effect created, due to increased affluence.

Chart 6 .Distribution of FDI by countries of origin (2010)



Source: NBR (2011, p 21)

Top 5 countries according to the share of FDI stock at 31 December 2010 are: Netherlands (20.7%), Austria (17.8%), Germany (12.2%), France (8.3%) and Greece (5.7%), hierarchy which was registered in 2009. We can notice that most of the FDI in Romania come from EU countries (over 70%), which suggests a certain economic dependency of our country to the economic development of those countries. The financial and economic crisis we are experiencing has generated new approaches (UNCTAD, 2010) and reviews about the size of external openness of a national economy and the need to create mechanisms of protection against external contagion risks, generated by international shocks, including ensuring relative independence for a number of key areas of economic and social activity.

5. Categories and incomes from the FDI in Romania

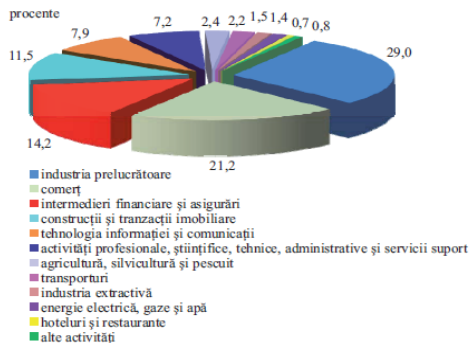
Equity flows in FDI enterprises, amounting to 4.067 billion Euros, is divided into greenfield, mergers, acquisitions and corporate development, each with specific characteristics and effects on exports and economic growth. In 2010, greenfield investments have been very low, amounting to only 46 million Euros, representing 1.1% of the equity in foreign direct investment

enterprises. The mergers and acquisitions investment are in the same situation with 93 million (2.3% of equity) in flow preponderance of shareholdings in 2010 due to the development of companies, with a value of 3.928 billion Euros, or 96.6% of the shares, "revealing", among other things, a relative slowdown of export diversification in times of crisis, as well as a tendency to invest mainly in cost savings and improving manufacturing technologies." (Zaman et al., 2011, p 17). In order to appreciate the lasting impact of greenfield investments on the economy, the accumulations of foreign direct investment (stocks) in greenfield investment enterprises (called greenfield enterprises) were highlighted.

In terms of distribution by main economic activity, foreign direct investment in greenfield enterprises were mainly oriented towards manufacturing (13.9% of the total stock). Other sectors in which these investments have significant importance are trade (10.2%), financial intermediation and insurance (6.8%), construction and real estate (5.5%).

We observe a high level of investments in the service sector (22.5%) compared to manufacturing. "From the experience of other countries emerging economy, including Romania, the absolute and relative growth of the service sector and in terms of the industry of manufacturing, there isn't any sustainable evidence of an economic evolution, given the fact that most of the services are related to the vulnerable and volatile speculation, with the highest potential crisis and pro-cyclical instability. Unfortunately, in Romania, in over two decades of transition to a market economy, there has been a sharp decrease in absolute volume of production of most industries, especially those with high technological level (pharmaceutical industry, fine synthesis chemistry, electronics etc.)." (Zaman et al., 2011, p 17).

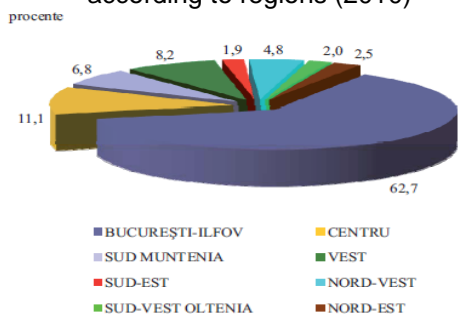
Chart no. 7. Greenfield FDI enterprises - the structure according to the main economic activities (2010)



Source: NBR (2011, p 22)

The largest share of FDI in greenfield enterprises focus, as the total FDI in Bucharest-Ifov (30% of total stock), followed by central region with 5.3% and the West and South Muntenia 3, 9% and 3.2%. Regional allocation of greenfield FDI especially in some developing regions of Romania, in the short and medium term, may be a deepening factor of inter and intra-regional disparities in the country, discrepancies that can generate significant flows of domestic and foreign migration labor.

Chart no. 8. FDI in Greenfield enterprises according to regions (2010)

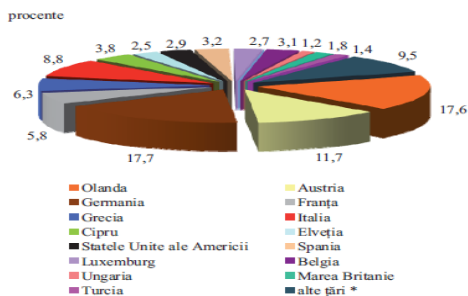


Source: NBR (2011, p 20)

Taken into account the size of FDI in greenfield enterprises, the rank of the country's origin is different to some extent from the one determined according to the original balance of the

FDI. Thus, the largest greenfield investments in companies come from Germany (8.5% of total stock), followed by the Netherlands (8.4%), Austria (5.6%) and Italy (4.2%).

Chart no. 9. FDI in Greenfield enterprises-country of origin



Source: NBR (2011, p 21)

Net incomes obtained by foreign direct investors in Romania in 2010 totaled 491 million Euros, representing a decrease of 203 million Euros over the previous year. Equity revenues were calculated as the difference between net profits of FDI enterprises, amounting to 4.222 billion Euros, and the losses, amounting to 4.495 billion Euros, accounting for 2010 a 273 million euro loss.

Decreasing the income from equity to the amount of dividends distributed in 2010 to foreign direct investors (1.970 billion Euros), we obtain an overall FDI net loss of 2.243 billion Euros, calculated according to the international methodology for determining reinvested earnings. The net interests income received from foreign direct investors directly on loans to their businesses in Romania, both directly and through other resident companies within the group amounted to 764 million Euros. (NBR, 2011, p 12).

6. Conclusions

FDI is a key factor of economic development of any country and its functioning on the market principles.

They have great importance for the consolidation and integration of emerging economies into the world economy. Because of the FDI, the modernizing national economies process takes place, especially of those emerging through the implementation of advanced technologies, know-how, the most advanced equipment and new quality standards by moving to a higher type of growth economy.

The transition of former communist countries of central and Eastern Europe towards market economies, more or less functional, occurred amid expansion of foreign direct investment in the region. The experience of transition countries (Poland, Czech Republic, and Hungary) shows that FDI has contributed to modernizing their economies through new technology, using the most modern methods of business management for competitiveness gap that separates the economies of the new Member States EU from those of developed countries.

During 1990-2011, FDI increased significantly in Romania. On the one hand, this is due, to the level of FDI almost non-existent at the beginning of the transition period and, on the other hand, because of the gain opportunities which foreign investors could capitalize in Romania, by greenfield investment or

through purchases (mergers and acquisitions) or portfolio investment in the capital market. During 2003-2008, there has been a rapid growth, which placed Romania among the most attractive destinations for the FDI. In 2006, Romania ranked 3 between New Member States in terms of attracting the FDI, after Hungary and Poland. As expected, the economic crisis has affected the FDI volume, which decreased from the previous year, from 5.92 billion dollars in 2008 to 4, 81 billion dollars in 2009.

In conclusion, foreign direct investments (FDI) make an essential contribution to economic growth, by generating jobs, optimizing resource allocation, enabling technology transfer and boosting trade. Romania's business environment requires economic freedom and tax friendly conditions to entrepreneurs, including foreign investors.

The future action taken by the Romanian authorities should aim to create a favorable economic environment by promoting favorable conditions for foreign investors, such as fair and non-discriminatory treatment, protection from illegal expropriations, direct appeal to international arbitration as well as the transformation of Romania in an attractive fiscal environment.

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