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THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ROMANIAN ECONOMY

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Abstract: *This paper deals with the issue of foreign direct investment in Romania and the impact that these may have on the Romanian economy. One of the most important effects of the FDI, directly felt by local consumer, is the decreasing of prices of goods and services with a positive impact on the standard of living of the local population. By entering into the local economy of foreign firms the prices are getting lower, as a result of a widening competition.*

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Investments, macroeconomic, labor force, investors, effects
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O10

1. Introduction

The issue of foreign direct investment (FDI) was and is intensely debated, with, in this regard, concerns both nationally and internationally.

At the macroeconomic level, FDI sustained growth both directly, by supplementing domestic capital for purchase of fixed assets and indirectly, by stimulating domestic investment, contributing through spillover effects, the development of productive activities.

In addition, foreign investments have been an important source of financing the current account deficit, net financial effect (calculated as the difference between inflows and outflows) emphasizing with increasing inflows of foreign capital.

Also, FDI significantly influence the living standards of the population and have started research in many areas in order to achieve a high level of knowledge growing.

From a conceptual perspective, the implications are positive macroeconomic related mainly to the following:

- support economic growth, which is done differently depending on the form which takes foreign direct investment. If an investment "the empty space " (Greenfield), economic growth is due to the creation of new production capacities, additional employment, emergence of a new consumer and taxpayer .

If participation in privatization, the positive effects occur when the economic activity more efficient and increase its competitiveness, allowing long-term survival of the privatized enterprise.

- stimulate domestic investment as domestic producers will be interested in increase business efficiency and improve outputs either face competition due to the presence of foreign investors in the sector in question, or to acquire foreign investor quality suppliers. In addition, local companies can gain access to the distribution channels of the foreign investor, in which case they will be interested in increasing the production and quality of goods made.
- support the restructuring and privatization, something which is of particular importance in the case of Central and Eastern Europe, especially for companies that require a large amount of capital and the ability to reorganize and streamline operations.

2. Effects of FDI

Thus, foreign investors can contribute not only financial resources privatization, to the extent that later performs rapid investment in order to improve the company's activity:

- increase investment capital due to foreign investors' access to external sources of capital . If local capital markets lack the financial resources to fund major projects, foreign investment can cover this deficit as it is a direct source of foreign capital. So, can have positive effects on the balance of payments, the current account deficit financing.
- generate positive effects on the trade balance, if the investor directly produce primarily for export or the domestic market production substituting imports.

- support increased revenue to the state budget due to the new contributors the host economy. Even if they are granted certain tax incentives, budget revenues increased due to higher receipts from payroll taxes. Although FDI can generate a number of positive effects on the country implantation is not excluded the possibility of a negative impact on the macroeconomic and sectorial levels.

Some of these effects are inherent and manifest generally short, their appearance is closely related to the implementation of the investment and/or making it more efficient, for example:

- increase in imports reflected negatively on the trade balance is due to the import of machinery and equipment financed by foreign investors, without which implementation of the investment would not be possible . In the long term, as far as retrofitting activity translates into increased productivity and competitiveness, there may be a decrease in the trade deficit, mainly when the foreign investor is predominantly export oriented and import substitution.
- increase in unemployment due to restructuring of privatized enterprises in order to improve business fast . It is obvious that in this case, there may be a reduction in employment in privatized enterprises. In our opinion, the long-term disadvantage is insignificant if the restructured businesses benefit from increased efficiency and competitiveness of business , in which case , the spillover effects may generate new jobs (through the development of upstream activities or downstream).
- negative impact on the budget due, on the one hand, tax incentives granted to foreign investors (policy incentives) that have the immediate effect of reducing revenues.

On the other hand, increasing the number of unemployed as a result of privatization and restructuring of state enterprises generate additional budget expenses as labor force restructured sectors is not immediately absorbed in development activities. In the long term, as the investments mature, there may be an increase in revenue to the state budget due to new taxes paid by taxpayers (companies and employees.

Therefore, the impact of FDI on the host economy is different from country to country, depending on the existing concrete economic, social and political and foreign capital penetration.

3. The role of FDI in supporting growth

Bidirectional relationship between FDI and economic growth is due on the one hand, their impact on the economic environment of each country and on the other hand, the positive influences of sustained and sustainable growth have on foreign capital inflows receiver.

According to specialists, for a given country, periods of intense growth are characterized by attracting inflows of foreign direct investment.

Although Romania has experienced high rates of growth, it was not supported to the same extent by foreign direct investment. In the year 2011, the share of FDI stock to GDP represented 24.2 %, which is below the European average EU-25 (31.7 %).

Consequently, in the context of globalization and economic integration embodied mainly in the internationalization of production, foreign investment support growth in a more or less depending on the actual conditions in each country.

The effects of FDI on the balance of payments are numerous and sometimes contradictory, are determined by a number of factors, of which the most important are: the type of investment, economic efficiency, scope, access to resources, transaction costs and classical interventions host.

Analysis of the impact of FDI on the balance of payments must consider both trade flows (trade balance) and “possible significant capital outflows or diversion of flows from other potential investors".

In this respect, the best example is the case of fixed telephone company Romtelecom, which privatization, foreign investor was granted a monopoly in the market for a period of five years (1998-2003), during which prices increased significantly. These higher profits obtained as a result of anti -competitive techniques can turn into outflows in the form of excessive salaries of expatriates and high royalty fees, negatively affecting the balance of payments.

For countries in transition to market economies, such situations are not unique if we consider the concentration of FDI in oligopolistic markets.

Another issue raised by analyzing the impact of FDI is the method of financing, which directly affect the external private debt. Negative effects on the balance of payments occurs when foreign companies borrow abroad and subsequently focuses on the rapid recovery of investment through the use of techniques to circumvent tax (Transfer Pricing or higher fees).

Another aspect of the analysis of the impact of FDI on the balance of payments aimed at tracking the effects generated by investment projects, as follows: in the first phase (the investment) capital inflows recorded in the financial account as a tool to balance the balance of payments by financing the current account deficit, in the second phase (implementation of the investment) due to massive imports made by foreign companies (equipment, machinery, raw materials etc.) there is a negative effect on the balance Commercial.

In the third stage (maturity investment) effects on the balance of payments, balance of trade that are diversified. Positive effects on the current account occur when profits are reinvested in the host country and capital outflows in the form of interest, royalties and generated by the administrative transfer pricing are not significant. So, there are many channels through which FDI can positively or negatively affect the balance of payments of the country receiving.

Another effect of aggregate FDI is the budget impact that can occur in the form of contributions both positive and negative. In essence, the experts consider that in the first stage negative impact on the budget for later, with the development activities and the creation of new jobs, it becomes positive.

Negative contributions to the budget include:

- *Initial phase (implantation of investment)* implies reduction in income budget due to tax incentives granted to foreign investors (tax incentive policy), additional budget expenditures, social, due to the increasing number of unemployed as a result of privatization and restructuring of state enterprises.
- *subsequent phase (maturity investment)* implies reducing taxes and taxes paid to the host by using transfer pricing mechanism and other mechanisms

Positive contributions to the budget may be: (appears only in the mature stage):

- Additional revenue to the state budget consisting of taxes paid by November contributors (employees and businesses).

Quantitative dimension of capital contribution of FDI inflows is given to the ratio of FDI flows received and gross fixed capital formation (GFCF).

Foreign investment supplements domestic capital be achieved when "the empty space "leading to the development of new activities or in case of change of ownership (privatization or takeovers of companies) when such acquired company would have closed or through the investment foreign, are enhanced performance. Obviously, from this point of view, the impact of foreign capital inflows is stronger for investment of "greenfield".

One of the most important effects of FDI directly felt by local consumers is to reduce the prices of goods and services have a positive impact on the standard of living of the local population.

By entering into the local economy to foreign firms lower prices as a result of widening competition. Of course, if the foreign investor fails to capture the market and to have a monopoly, social and economic effects are negative due to the price increase good or service in order to achieve further gains.

An example is the privatization of Romtelecom phone Romanian followed by a significant increase in tariffs as a result of the monopolistic investor -owned Greek Romanian state guarantee for a period of five years (1998-2003).

4. Conclusions

Consequently, the net impact of FDI on the standard of living of the local population is difficult to quantify. If we consider only the issue of price reduction is evident that the standard of living is improving as local consumers will benefit both the new prices lower and a greater variety of products.

If we, however, to more complex issues, namely the direct and indirect long-term, the situation changes as undesirable phenomena can occur at economic and social level.

In other words , the increase in living standards as a result of foreign direct investment aimed at the local market (market - seeking) has a price consisted essentially in widening disparities between members of society.

Currently Romania is an EU member country, but the position of the last coming with the greatest economic and social differences of others Europeans. Exports, the average wage in Romania are among the lowest the European Union.

Hence the one important conclusion: Romania's economic efforts must not fall, but rather to be amplified. There is no more important goal for Romania than economic development based on maximizing the opportunities of integration into the European Union makes it a true "magnet" for foreign investors.

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