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The Analysis of Investment Development Path (IDP) in Romanian Economy

Summary

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IAȘI, 2012

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KEY WORDS

- Foreign Direct Investment (FDI);
- Net Outward Investments (NOI);
- Investment Development Path (IDP);
- stages of development of FDI;
- inward and outward FDI;
- institutional factors.

AIMS AND OBJECTIVES

The impact of FDI on development and economic growth in recent decades has generated a new concept, Investment Development Path. This concept assumes a link between the level of development of the country (represented by GDP / capita.) and Net Outward Investment – NOI (difference between outward and inward FDI).

Looking for answers to these questions, the aim for this research is to determine the best policies and strategies to attract FDI at present and in future. To achieve the goal, our research proposes a primary objective and multi-sequential objective.

The main objective of this research is to determine the stage of development that Romania has regarding IDP. Therefore, we aimed to determine this stage of development through the following objectives:

Objective 1 - Knowing the need for a new approach to the theory of IDP by including institutional variable:

- objective 1.1 - presenting the main theoretical approaches of IDP;
- objective 1.2 - identify research methods used in studies of IDP;
- objective 1.3. – studying research literature of IDP to identify aspects of the new theory (introducing institutional variables);

Objective 2 - Knowing the inflows and outflows FDI: global, regional and national level in 2010:

- objective 2.1 - estimating the impact of FDI on the economy of developed and developing countries;

- objective 2.2 - FDI dynamics in the Romanian economy;

Objective 3 – IDP in Romania and characteristics of IDPs stages of development:

- objective 3.1 - defining reciprocal link IDP - development and placement IDP in the wider process of development;
- objective 3.2 - placing Romania in one of the five stages of development defined by the theory of IDP;
- objective 3.3 - comparative characterization of IDP in Romania and some Eastern European Countries;

Objective 4 - The demonstration of romanian idiosincrazy model IDP and the identification of the particular aspects of development stages:

- objective 4.1. – identifying the evolution of institutional conditions of IDP;
- objective 4.2. – identifying the particular aspects of inflows volume and outflows FDI;

Objective 5 - Assessing the influence of FDI on cluster development in the North East Region, ISD types and regional IDP:

- objective 5.1. - identification of the connectivity cluster - FDI;
- objective 5.2. - identification of the economic regional characteristics;
- objective 5.3 – placing Nord-est Region in one of the five stages of development of IDP by type and outflows FDI.

SUMMARY

Given the complexity of the subject and the intended purpose, this paper is structured in five chapters, each of it responding to a specific purpose.

In Chapter I, entitled "Foreign direct investment - the defining aspects of theory and research methodology" are explained the theoretical issues of foreign direct investments. Our purpose for this chapter is to analyze the definition of FDI, seen through the international organizations and national offices, as well as to highlight the perspective differences between them. For the systemic-incremental approach of the subject was necessary to establish the current state of knowledge in FDI by addressing the main theories of firm internationalisation.

Chapter II, "Types and evolution of foreign direct investment (FDI)", refers to economic motivations in firm internalisation, determinants of FDI, types of FDI, the dynamic nature of the evolution of FDI inflows and outflows. This evolution is approached globally, regionally and nationally between 1990 and 2010. We analyzed the relationship between FDI and multinational companies, as well as the the evolution in time of FDI, motivation on internalisation of firms and strategic assets of FDI . The emphasis was on the impact of FDI over the host country and the development consequences for the host country, which is one of IDP variables key in Chapters III and IV.

"From the OLI paradigm to the concept of IDP - theoretical aspects", the third chapter, is a dynamic approach within the paradigm Ownership-Location-Internalization (OLI). It assumes a link between the development of the country (represented by GDP per capita) and foreign direct investment. We will demonstrate that, as the country develops, the conditions for local and foreign companies change, affecting the inflows and outflows of FDI and the internationalisation of domestic firms. The link with the first chapter is made by OLI paradigm which is behind the concept of IDP. In this chapter, we also define and explain the five stages of development that characterizes IDP.

In Chapter IV, "Evolution of Investment Development Path in Romania", we identify the stage of IDP for Romanian economy. The emphasis for Romania is the result of analysis through three research methods: analysis of UNCTAD, estimating IDP by analysis of time series, estimating by analyzing variables. It also takes into account the analysis of the determinants of IDP for Romania, defining aspect of the IDP development.

Chapter V, "Case Study: North-East Region, FDI, clusters and regional development" represents a particular way of understanding the issues of FDI at a regional level. It will examine whether the structure and type of FDI present in the North-East, analyzed through the development of PIN, complete cluster development in the region.

In "Conclusions" the main aspects of this research study are outlined: the importance of institutional variables in contribution to the IDP theory, in which stage of IDP is the Romanian economy, the influence of FDI for domestic firms, FDI and development in the North – East Region. I insisted on some proposals (suggestions) that Romania, through its authorized institutions, may apply in the near future, suggestions seen from the perspective of evolutionary analysis of institutional variables in Chapter IV of the thesis.

FINAL CONCLUSIONS, CONTRIBUTIONS AND PROSPECTS FOR FURTHER RESEARCH

The research has shown, based on the literature, that this topic is important not only because it was less empirically investigated for Romania, but also because it allows highlighting the link FDI and development. All this allows identifying the economic consequences of FDI for the host country and possible future directions on evolution of FDI and economic development policies to attract FDI. Therefore, we aimed to determine the stage of development that is Romania regarding IDP through the following objectives:

Objective 1 - *Knowing the need for a new approach to the theory of IDP by including institutional variable* by studying research literature revealed that, for understanding the IDP must be entered the new institutional variable analysis of the concept. The original theory is questionable because, on the one hand, of the changing nature of global FDI, on the other hand, we have the specificities of each country analyzed in terms of IDP. It takes a new approach to the IDP theory. This paradigm shift is caused by new changes in recent years given the openness of economies, economic peculiarities of the country and the nature of trade. Thus, there is the need for a triptych approach on PIN evolution: market size and natural resources are complemented by the development of the country. The emergence in recent years as many FDI in search of assets, determine that for countries in development stages 4 and 5 of IDP, variables related to technology and R&D to be complemented by institutional variable.

For better representation of IDP was necessary to know the characteristics of the inflows and outflows of FDI globally, regionally (Europe, Asia, North America, Europe SE) and national under **Objectives 2** - *Knowing the inflows and outflows FDI: globally, regionally and nationally in 2010*. The effect of development in certain regions comes as a result of FDI flows. The developed and developing countries have certain basic features of the volume of FDI inflows and outflows.

The global post-crisis context will increase the liberalization of FDI, while increasing facilities offered by the host country. FDI remains an important development for both, developed and developing countries. The development level of the host country influences the volume and structure of FDI inflows and outflows. The analysis conducted by three research methods have shown that, there is a relationship between the level of development and volume of inward FDI. The developing countries facilitates the opening of economies to FDI along with an increase in global FDI outflows.

Gaps between Romania and Eastern European countries analyzed were reflected on the level of development that influenced the FDI volume. The decision to invest of FDI includes analysis of local factors, earnings of FDI needs, size of investment risk in the host country. The

determinants of FDI (market size, cost of production factors, quality of skilled and unskilled labor) are completed, increasingly more lately, by the quality of government institutions and a stable and transparent economic environment. FDI motivations have shifted from natural resources to the strategic asset (R&D) and liberalized markets.

In our opinion, Romania has undergone two distinct periods in terms of policies to attract foreign direct investment. In the first period, until 2004, characterized by economic instability and lack of a legal framework with adequate institutional failure conditions have led our country in attracting FDI. Later in the period of growth began in 2004, economic stability was achieved while improving significantly the legal and institutional framework to attract FDI, while FDI growth of domestic investment, as one of the priorities of national economic development programs. In Romania, compared to most countries in CEE, FDI inflows and outflows are relatively low. FDI impact was reflected in sustaining economic growth both directly, through increased domestic capital for purchase of fixed assets, and indirectly, through its impact on local firms, were an important source of financing the current account deficit, have had an impact on labor employment through wage increases, at the microeconomic level by increasing productivity, efficiency and effect of "rebound" in territorial development and the local firms. It is noted, however, a tendency of FDI to manufacturing and service-oriented FDI assets to the detriment of technological and entrepreneurial innovation, which can be a negative factor in the investment guidelines of FDI in Romania. In terms of regional distribution, there is a concentration of FDI in developed regions. The NE Region has lower level of FDI due to physical distance from western countries (the main beneficiaries of FDI exports), less developed infrastructure and lack of involvement of local institutional factors in attracting FDI.

Like many other debates, there is no consensus on the best government way action involvement in policies to attract FDI, as well as the effect that multinationals have in developing economies, but the IDP concept has formed, which describes a five development cycle stages in the host economy (according **Objective 3 - IDP for Romania and stages of development**). Using the "UNCTAD" method, in 2010, with a GDP/cap. of 7.530 USD, Romania is in Stage II of IDP together with Bulgaria. Among EU countries, only Bulgaria and Romania are in Stage II development which shows a low level of development of these countries in comparison with other CEE countries, where most are in Stage III of IDP. Using the time series analysis method, Romania is the late Stage II and early Stage III of IDP. Romania through stages of IDP, following the original paradigm of Dunning. IDP by analyzing variables and clusters by country places Romania at the beginning of stage III of IDP. It confirms once again the idiosyncrasy of the model.

In terms of IDP, Romania is in Stage 2 and early stage 3 of development. IDP is idiosyncratic (under **objective 4 - Demonstration of idiosyncrasy of the model and identify**

particular aspects of the development stages of IDP in Romania). We go through the same stages of development present in Dunning's original model, but with differences in the volume of inflows and outflows of FDI and GDP/cap. There are also differences in the number of years needed each development stage of IDP. Romania passes in Stage II in 2004, a difference of 10 years compared to other Eastern European countries analyzed, one explanation being given by the economic policies of obstruction of privatization of “do not sell our country”. The end of stage 2 and early stage 3 development takes place in 2010 (analysis variables and clusters per country). The difference from other Eastern European countries analyzed is 4-7 years (time series analysis).

Regional development involves supporting existing competitive advantages through regional determinants, which configures a system that can ensure sustainable development. The role of clusters and FDI is crucial in maintaining regional advantages (according to **objective 5 - Assessing the influence of FDI on cluster development in the North Eas Region, ISD types and regional IDP**). The NE Region is in Stage 2 of IDP unlike Romanian IDP which is at the beginning of Stage 3. Low outflows FDI and the preferences for domestic market is a characteristic of the Stage 2 of IDP.

The research on the FDI determinants, comparison with the economies of Central and Eastern Europe in terms of IDP, represents a starting point to determine the best policies and strategies to attract FDI. Economic policies on attracting FDI tend to flatten the convenience, but FDI will be attracted by an economic environment in which the analyzed variables coincide with development trends and economic rent. These variables are: political stability and absence of violence, government effectiveness, regulatory quality, rule of law, control of corruption, freedom of speech and government accountability.

The originality of the research is not only to introduce the concept of institutional variable, but in proposing new research perspectives by: sectoral, regional IDP or the implementation of new variables that reflect global developments in FDI.

Romania needs foreign direct investment to build the foundations of market economy system. Without neglecting and underestimating the place and role of domestic capital, FDI is one of the decisive factors of progress and increase economic efficiency. Without FDI, Romania can not exceed the current economic crisis and can not enter the path to achieve the new knowledge economy concept, specific to the developed countries, based on the presence of R&D and institutional factors. Only on modern techniques, supported by a comprehensive and coherent investment program, it is possible to increase the competitiveness of the Romanian economy and its products in the international arena, the foundation to achieve full economic integration into the European Union.

To determine the IDP for Romania, we must take into account the economic system that existed before 1989 and created serious distortions in the development of PIN. The system based on central planning has a natural tendency towards a high degree of economic autarchy and a marginal approach in terms of FDI attention. The analysis of IDP for Romania is related to the development of institutional characteristics on FDI inflows and outflows. Thus, a significant change in this respect was that the systematic opening of the economy to inflows FDI. The main factors influencing this opening were: liberalization of FDI flows, trade liberalization and currency convertibility transition to privatization of state enterprises. The privatization and liberalization took place when entering foreign investors and the formation of “greenfield” or “joint ventures” companies with a local partner. There was no full liberalization because there were significant barriers to foreign capital made by the association or complicated procedures for obtaining necessary documents. One reason for the lack of interest on the internationalization of Romanian companies is the profit rates obtained in Romania who are higher than those obtained outdoors.

From developmental states, the argument that this action generates losses and arguments institutional factor is responsible for economic development. Romania can improve economic performance by gradually building a productive institutional interventions with export-oriented economies. In developmental state there are three areas that can influence growth and development: training, scientific research (while supporting the formation of industrial base, favoring the tax advantages), international cooperation (access to resources outside).

According developments in the early stages of IDP is required institutional involvement of the state through development programs and infrastructure industries for import substitution policies to promote labor-intensive export industries (textiles, clothing) then capital intensive export. According to IDP in Romania, attracting FDI requires a favorable investment climate that includes long-term macroeconomic stability. This favorable macroeconomic FDI can be achieved only by improving the stability and institutional variable, discussed in terms of five basic directions: the openness of the country, political stability, government effectiveness, regulatory, rule of law, control of corruption. Improving legislation will provide clear rules on the rights of investors and investment activity, infrastructure development business, including financial services, legal, and other components, including transparency in the work of state institutions and business confidence. Romanian legislation is neither clear nor very stable. Another influence on FDI is the perceived likelihood that the government will be destabilized or overthrown by unconstitutional means. At this time, the unstable political climate makes Romania to be increasingly perceived more unstable as a host country for attracting FDI. It is also important to increase the quality of public services, a greater degree of independence from political pressures and political non-involvement in the business environment to attract FDI,

policy term by legislation to enable private sector development, private management firms with natural monopoly state, to improve public services by increasing tax collection, control of corruption (petty and grand corruption and vested interests). All these measures to attract FDI will be found in variables used to determine the Romanian IDP evolution by analyzing variables and clusters by country.

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