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Dynamics of Foreign Direct Investment Flows in Romania

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Abstract: Problems on FDI, the role and impact on the modernization of economies in transition are particularly topical. This topic was discussed both nationally and internationally. In Romania, approaches and debates on FDI has resulted in scientific papers prepared by specialists and regular reports of bodies such as the Romanian Agency for Foreign Investment, the National Trade Register Office and National Bank of Romania. Internationally noted a variety of papers, books, articles addressing the theme of FDI, and developing an annual report, World Investment Report (World Investment Report) by United Nations Conference on Trade and Development (UNCTAD).

The reason I chose this theme was born from a purely empirical observation, namely, I noted that Romania's potential for FDI after 1990 has not been set high. Initial data were lower than in neighboring countries and the policies implemented by governments that have succeeded to power in the period 1990 - 2004 were not likely to encourage foreign capital to invest long term. The poor performances of the economy and political instability have added less democratic events that accompanied the transition from the '90s. I believe that in this context, foreign direct investment represented a solution to the urgent need to restructure the domestic economy, but also to find competitiveness in foreign markets.

The aim of this work is to study FDI impact on our economy, investment climate influence the activities of transnational corporations in Romania.

Keywords: FDI, Investment conditions, investment climate, transnational corporations, Romania.

Evolution of FDI in Romania during 1990 - 2006

Evolutions of FDI in Romania go with country's economic development since between the country's resources - loans and investments and its performance exists a direct relationship. The start of the transition process in Romania was more difficult than in other ex-communist central European

countries. The economy was almost entirely in the state administration, private sector contribution to GDP in 1989 was 12.8%. Romania's potential for FDI after 1990 has not been set high. Data on the first investment in Romania was lower than in neighboring countries and the policies implemented by governments that have succeeded to power in the period 1990 - 2004 were not likely to encourage foreign capital to invest long term.

❖ **Period 1990 - 2000**

In the period 1990 - 2000 direct foreign investments in Romania amounted to 6.966 billion Euro (7.7 billion U.S. dollars) away from the potential level of the economy and the situation registered in neighboring countries: Poland (39 billion U.S. dollars) Hungary (21.5 billion dollars), Czech Republic (12.5 billion dollars). This difference can be explained by the position of decision makers from foreign direct investment countries. Large inflows of foreign capital in these neighboring countries have been determined especially by partial privatization of public utilities, airlines or the state banks.

In Romania, until 1996 there was a stable legal framework and even attractive in foreign investment, but the privatization offer was very low and did not include public utilities or banks, for the period 1997 to 2000 to witness a reversal situation, legal and institutional framework has become extremely unstable, but significantly increased privatization offer.

FDI in Romania during 1991-2000, was reduced compared with the size of the country and the opportunities it offers. High levels of foreign investment flows have begun to register in 1997, closely related to the privatization process.

FDI distribution by industry shows the largest concentration of their volume in professional services firms and trade, areas in which the investment is small, material and energy costs are reduced and make a profit immediately. These investments have absorbed more than half of total foreign investments made in Romania in the period analyzed.

On 31 of December 2000 total volume of foreign direct investment attracted by Romania was 80% more than in 1996, and the number of companies with foreign capital was 75,346. Large companies were concentrated in the industrial sector in productive activities and small and medium-sized companies with foreign capital have focused on trade and services.

In 2000, the top 10 companies by foreign capital, by the value of the subscribed capital were as follows (Table nr. 1)¹

Tabel nr. 1- Top 10 companies with foreign capital

Nr. Crt.	Company	Foreign investor's country
1	Daewoo Automobile SA, Dolj	South Korea
2	Mobifon SA, Bucharest	Netherlands
3	Mobil Rom SA, Bucharest	France
4	Tofan Group SA, Bucharest	Netherlands
5	Shell Romania LLC, Bucharest	United Kingdom
6	Daewoo. Mangalia Heavy Industries SA, Constanta	South Korea
7	M.D.F. Sebes Frati SA, White	Italy
8	SA Heavy Bearings, Prahova	U.S.
9	Metro Rom Invest LLC, Bucharest	Netherlands
10	Coca-Cola Bottling Company LLC, Bucharest	Australia

Source: Data processing by authors

¹ Chitoiu, D, Bran, P cond.st.: Stimulating international investments by foreign financial and customs facilities, Bucharest, Editura ASE, 2004, p.161

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❖ Period 2000-2006

In the period 2000 - 2006 Romania drew 32 billion Euros. The high level of investment flows may be related to the privatization process, many banks and Romanian companies being privatized in that period.

Since 2001, highlights an increase in FDI inflows reaching the total registered foreign investments in this period to be two times greater than the entire stock of direct foreign investments were registered during 1990-1999. This increase is the result of economic policy change, which also contributed to the growth of Romania's gross domestic product by 25.2% in 2001-2004. The new economic policy aimed at macroeconomic stabilization, enhancing economic growth, reducing inflation, improving Romania's access to foreign capital markets on favorable terms of interest, further accelerating structural reforms, privatization and restructuring, respectively.

Romania was the largest recipient of FDI in the eight countries in Southeastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania and Serbia & Montenegro), amassing 38.4% of total capital attracted foreign to this region during 1990-2004 and 9.1% of the stock of FDI attracted by countries in Central and Eastern Europe (Czech Republic, Hungary, Poland, Slovakia and Slovenia) in the same range.

The structure of FDI on industries related to the value of subscribed capital in companies with foreign participation, between 1991 and December 2005, the industry placed first with 52%, followed by professional services 21.7%, trade 14.9%, transport 7.1%, tourism 1.8% Construction 1.7% and agriculture 0.9%².

Orientation of direct foreign investment by industry due to advantages offered by Romania in this field such as lower land prices than in other countries in the region, developed infrastructure, skilled and cheap workforce, there is capacity and tradition in this field. In the industry a great impetus in the last two years foreign investment had the automotive industry. So, many companies have completed or have indicated their intention to carry out investment projects in this area: the Japanese company Yazaki opened two auto parts factories in Ploiesti Industrial Park the investment value being of \$ 16 million, following the German investment Draxlmaier U.S. \$ 15 million to open auto parts plant in Hunedoara and Ruwel German company announced its intention to make an investment consisting of the opening of an auto parts plant worth EUR 80 million industrial park in Cluj. Also, Renault-Nissan alliance has made public its intention to invest 215 million Euros in a production capacity for gearboxes; production will be 100% for export. The Pitesti plant was completed in May 2008 and the final value of the investment amounted to 1.2 billion Euros.

States that have invested most in Romania in 2006 were the Netherlands, Germany and France, and the areas to which they directed most money were telecommunications and trade.

The study by consulting company Ernst & Young, entitled "South East Europe Attractiveness Survey", considering Romania as the most attractive investment destination for South - East, according to a substantial improvement of foreign investor sentiment on the part of the Old Continent .

Romania has an important role in attracting foreign direct investment (FDI). In 2005, a total of 10.4 billion FDI in the countries of South Eastern Europe, half went to Romania. That positive trend continued in 2006 when FDI increased by 74.2% over 2005. This result is due even to the government privatization policy. The most important privatizations were: Romanian Commercial Bank, sold to Erste Bank at the end of 2005, Petrom, Romanian oilfields company, sold the OMW in 2004, the Agricultural Bank sold to Raiffeisen Bank in 2001; Sidex giant steel sold to LNM Ispat in 2000, the Romanian Bank for Development, sold at Societe Generale in 1998, Dacia Auto sold to Renault in 1997. Privatization of the largest Romanian bank, Romanian Commercial Bank, completed in late 2005, is the largest privatization

² www.bnr.ro - Annual report on foreign direct investment in Romania in 2005

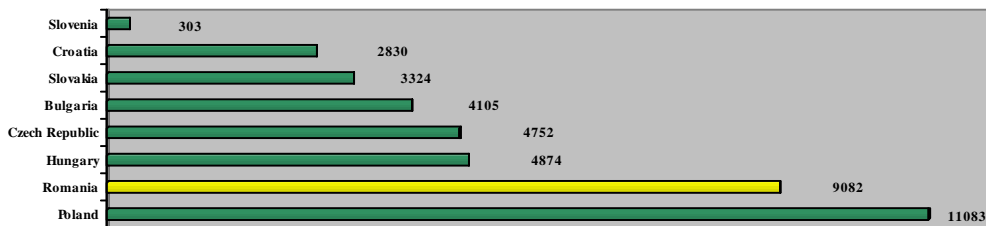
of economic, made in Romania: the sum of 3.75 billion Euros for 61.88% of shares equivalent to of all other of the 15 years preceding privatization.

Evolution of FDI flows is influenced by events taking place in the political and economic, international and national and foreign partners' trust in a country's development strategy. Improving the business environment, the effects of introducing the flat tax and the positive attitude of foreign partners towards Romania have resulted in attracting record foreign direct investment worth 9.1 billion Euros in 2006. Record value of 9.082 billion Euros in 2006, increasing by 74.24% compared to same period the previous year (5.213 million Euros), including EUR 2.2 billion, representing takeover by Erste Bank shares 36.8% of BCR.

Romania's attractiveness as a destination country for foreign investors was manifested by increasing by 9.2% in 2006 compared with the previous year, of the number of foreign companies newly registered. As a share in 2006 is 9.1% of the total number of companies with foreign capital registered in Romania during 1991-2006. In terms of distribution of the monthly number of companies newly registered foreign capital had a relatively steady trend of growth.

In 2006, the fierce competition in attracting foreign investment in the region of Central and Eastern Europe, Romania had a well deserved second place with a value of 9.1 billion Euros.

Figure nr. 1 - FDI flows - Regional Cmparison



Source: Data processing by the authors using the annual reports of central bank

The desire to adapt quickly to the conditions of accession to the European Union on 16 July 1998 was adopted the Law no. 151/1998, concerning regional development. The law provides the basic legal and institutional framework and declares targets for regional development policy in Romania.

In 1999, developing regions have been established in Table nr.2 ³

Table nr. 2 - Development Regions in Romania

Development regions	Composition
1. NORTH-EAST	Bacău, Botoșani, Iași, Neamț, Suceava, Vaslui
2. SOUTH EAST	Brăila, Buzău, Constanța, Galați, Tulcea, Vrancea
3. SOUTH	Argeș, Călărași, Dâmbovița, Giurgiu, Ialomița, Prahova, Teleorman
4. SOUTH WEST	Dolj, Gorj, Mehedinți, Olt, Vâlcea
5. WEST	Arad, Caraș-Severin, Hunedoara, Timiș
6. NORTHWEST	Bihor, Bistrița-Năsăud, Cluj, Maramureș, Sălaj, Satu-Mare
7. CENTRAL	Alba, Brașov, Covasna, Harghita, Mureș, Sibiu
8. Bucharest-Ilfov	București, Ilfov

Source: Data processing by authors

In terms of territorial investments were distributed as follows⁴:

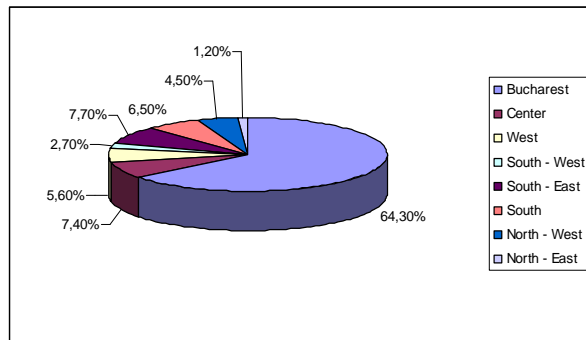
³ Regional Development Agency

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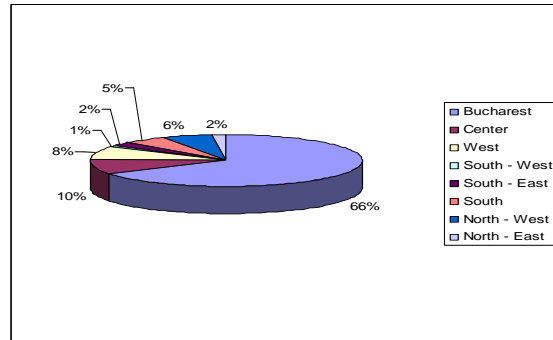
- The Development Region Bucharest Ilfov - 298 projects with a committed value of USD 4.007 million, representing 60.58% of total investment, including foreign investment U.S. \$ 2.969 million, representing 44.07% of the general total.
- The Center Development Region - (Alba, Brasov, Covasna, Harghita, Mures, Sibiu) - a total of 81 projects worth USD 972 million employed, representing 15.18% of total investment, including foreign investment 657 million, representing 44.88% of general total.
- Region - South - Muntenia (Arges, Calarasi, Dambovita, Giurgiu) - a total of 40 investment projects with a value of 607 million dollars committed, representing 9.18% of the foreign investment of 485 million dollars representing 7.33% of general total.

Figure nr.2 - Foreign Direct Investment 31 December 2006. Distribution by region of development

Total investments - 34.512 million Euros
Euros



Greenfield Investment - 16.725 mil.

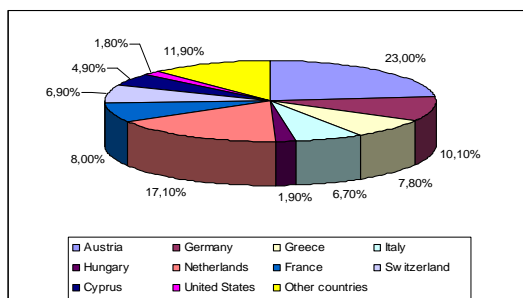


Source: Data processing by the authors using the IMF's annual reports

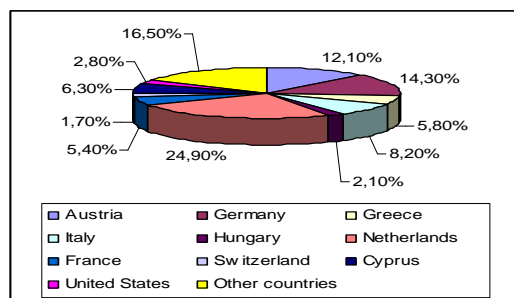
Top five countries ranked by the share of FDI stock at 31 December 2006 are: Austria (23%, a significant increase in share from 15.4% in 2005), Netherlands (17.1%, the decrease as a share of to 19.5% in 2005), Germany (10.1%) and France (8%), which retain the weights as compared to 2005, and Greece (7.8%, a slight decrease in share compared to 2005).

Graphic nr. 3 - Foreign Direct Investment 31 December 2006. Breakdown by country of origin

Total investments - 34.512 mil. Euros



Greenfield Investment - 16.725 mil. Euros



Source: Data processing by the authors using the IMF's annual reports

The main areas⁵ in which they invest are:

⁴ www.bnr.ro - Annual report on foreign direct investment in Romania in 2006, accessed May 2010

⁵ www.arisinvest.ro - Foreign direct investment in Romania on December 31, 2006, accessed May 2010

- telecommunications, 62 projects worth USD \$ 1.457 million employed, representing 22.01% of total investments
- services, 69 projects worth USD 811 million employed, representing 12.26% of total investments
- trade, 97 projects worth 737 million dollars committed, representing 11.13% of total investments
- mechanical engineering, 44 projects with a value of 693 engaged. million, representing 9.94% of total investments
- wood, pulp and paper, 22 projects worth 657 million dollars committed, representing 10.15% of total investments
- energy industry, 25 projects worth U.S. \$ 509 million committed, representing 7.70% of total investments
- building and construction, 42 projects worth 366 million dollars committed, representing 5.55% of total investments
- electrical and electronic industry, 16 projects worth USD \$ 232 million committed, representing 3.51% of total investments
- metallurgy, 19 projects worth USD \$ 234 million committed, representing 3.54% of total investment.

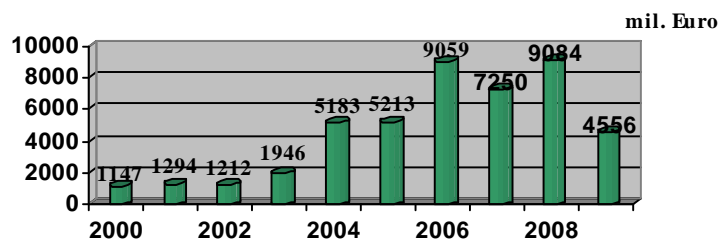
Evolution of FDI in Romania after EU accession

Once member of the EU, Romania has created a legal framework that consists of a market economy and promoting investment, and still continues to bring its legislation in line with the EU. Since October 2004, Romania was granted the status of functional market economy, after years of difficult transition.

The positive trend of attracting foreign direct investment was maintained at Romania's EU accession, even if the investments attracted in 2007 was lower than in 2006, Romania attracted 7.076 billion Euros. This trend is supported by the latest UNCTAD report on FDI; "World Investment Prospects Survey 2007-2009" shows that the regions that will attract most FDI flows will be 12 new EU countries, South East Community Independent States. Due to its location, Romania is able to attract a significant portion of FDI inflows in the region⁶.

The level of FDI attracted by Romania in the first year after joining the European Union, 7.076 billion Euros in 2008 were 9.084 billion Euros drawn which showed the attractiveness of the country and post-accession period. Post-accession funds is the best source of investment and because of the low level of development, Romania needs such investment in all areas. Unfortunately, due to the economic crisis, foreign direct investment in 2009 was approximately 50% lower than in 2008.

Graphic nr. 4 - Annual FDI flows in the period 2000-2009 in Romania



Source: National Bank of Romania

⁶ UNCTAD: „World Investment Prospects Survey 2007-2009”

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The value of FDI flow for 2007 was EUR 570 million in the banking sector, lower than in 2006 when it was recorded a value of EUR 3.431 billion (this amount includes the amount of EUR 2.02 billion received by Romanian state from the privatization of the Romanian Commercial Bank) and of 6.506 billion Euros in non-banking sector. In the first year after EU accession, Romania nonbank sector investment increased by 15.58% compared to 2006 when there were 5.629 billion Euros. Investors are still attracted by the industry and construction⁷.

According to data issued by the National Institute of Statistics, 2007 was the eighth year of growth, registering a GDP growth of 6.1%, less as opposed to growth in 2006 - 7.7%, but higher compared with 2005 - 4.1%. For 2008, the INS has estimated an increase of 6.5% reaching about U.S. \$ 442.8 billion (120 billion). The growth is largely determined by the large volume of activity in the service sector and construction industry.

Foreign direct investment (FDI) was directed in 2008 by manufacturing (31.3% of total), the most attractive being the metallurgy (6.9% of total), food, beverages and tobacco (4.6 %), petroleum, chemicals, rubber and plastics (4.3%), transport means (4%) and cement, glass, ceramics (3.6%).

A small weight, compared to potential, have the textile, apparel and leather (1.6%), according to research conducted by the National Bank of Romania, in collaboration with the National Institute of Statistics. Other activities that have attracted significant foreign direct investment are financial intermediation and insurance, including banking, non-bank financial institutions and insurance, and represents 20.5% of total FDI, construction and real estate (12.6%), trade (12.4%), information technology and communications (6.7%).

In terms of territory, in 2008 took place mainly oriented FDI to the region Bucharest-Ilfov (62.7%), other development regions being the Central Region recipient of FDI (8.3%), South-East (7.3%), South (7%) and Western Region (5.4%). North-East was the least attractive to foreign investors, accounting for 2.3% of direct foreign investment.

In all of 2009, foreign direct investment in Romania has dropped almost by half compared to last year's level. Nor in 2010 has not started better in this regard. Central bank statistics show a decrease of 49% of investments in the first quarter of 2010, up from 754 million Euros.

Given that FDI in one country are facilitated by infrastructure development, government efficiency, and an appropriate system of laws, international financial institutions actively supports Romania in its efforts to meet these criteria, and to overcome the difficulties of transition.

Romania is actively involved in the European economic environment, as reflected by the distribution of FDI by country of origin. Ranking of 10 countries according to foreign capital registered on 31 December 2008 is presented below:

⁷ National Institute of Statistics - Romania's economic and social development in 2007

Tabel nr. 3 - Distribution of FDI origin countries for foreign-owned companies				
Nr	Country	Number of registered companies	The amount of registered capital brought in foreign currency (Euros million)	% In total capital
1	Netherlands	3,456	4,016	18.49%
2	Austria	5,375	2,651	12.20%
3	Germany	16,664	2,278	10.49%
4	France	5,873	1,777	8.18%
5	Cyprus	4,255	1,099	5.06%
6	Italy	26,984	936	4.31%
7	U.S.	5,755	725	3.34%
8	Spain	3,451	701	3.23%
9	United Kingdom	3,940	661	3.04%
10	Greece	4,484	655	3.02%
Total registered capital in foreign currency for the first 10 countries:				
		80,237	15,499	71.36%
Total registered capital in companies with foreign capital:				
		159,927	21,723	100%

Source: Statistical Bulletin of the Office of Trade Register on 31 December 2008

The next investors have made the largest investments in Romania in 2008:

Tabel nr.4 - Cei mai mari investitori străini				
Nr	Investor	Country of origin	Activity	Capital subscribed
1	EON Romania SRL	Germany	Energy	72,3
2	Roche SRL	Switzerland	Health	41,5
3	Unita Vienna Insurance Group SA	Austria	Insurance	35,9
4	WS Renewable Energy Hydro SRL	Austria	Energy	22,3
5	Lidl Romania SCS	Germany	Retail	21,4
6	Degi Titan SRL	Germany	Real Estate	17,5
7	Nova Real Estate Ltd.	Cyprus	Real Estate	15,8
8	Kato Drys SRL	Cyprus	Real Estate	14,8
9	Siret Furniture Company SRL	Netherlands	Furniture	12,0
10	Trelleborg Automobile SRL	Sweden	Cars	11,9

Source: ARIS

Our country is a magnet for investment from countries all over Europe and all over the world due to the resources available and mainly due to lower labor costs⁸.

Dutch investments in Romania

⁸ Larive Romania, www.doingbusiness.ro

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With over 18% of total foreign investments in Romania, the Netherlands ranks first among foreign investors. More than 3000 companies operating on the Romanian market are Dutch capital, big investments being made by Unilever, ING (ING Bank, ING Nederland and ING Securities), ABN AMRO Bank, Frans Maas, Remco, Philips, Damen Shipyards Group KPMG, Heineken, SPAR, Friesland, Verder Group, TNT, Golden Tulip Hotels, KLG (Kuijken Logistics Group), Transport Centre, etc.. Dutch companies investing in particular in production and logistics, milk processing, banks, etc.

Austrian investments in Romania

Since 1990, Austria was always among the most important trade partner of Romania. Currently, Austria is ranked in the top two foreign investors on the classification of incurring a capital of 2.25 billion Euros, with over 4,700 companies who have Austrian capital and over 1,100 employees in joint ventures. However, the transaction of BCR changes the Austria's position among foreign investors. Erste Bank was considered to come to Romania after some successful strategies implemented in Slovakia and the Czech Republic, BCR becoming the biggest privatization in Romania.

Austrian investors leaders in Romania, Erste Bank came out of the new are: OMV, Raiffeisen, Schweighofer, Strabag, Porsche Romania, Bramac Baunit Wienerberger, Volksbank Vienna Insurance (holding Omniasig and Unita).

Many Austrian companies interested to invest in real estate, the purchase of land in the neighborhood of highways and transportation hubs, in car fabrication, metallurgy, production and measurement equipment, feeders industry, building materials, etc. In banking, Raiffeisen Bank and Volksbank are already top players.

French investments in Romania

Over 5,200 French-owned companies are registered Romanian Trade Office, France occupies third place among foreign investors in Romania. Great French investors in Romania are: Orange, Societe Generale, Lafarge Romcim, Renault-Dacia, Vivendi Environment, Carrefour and Alcatel. French investors were mainly interested in companies undergoing privatization, Greenfield investment is less preferred. An exception is Alcatel, which has invested in Romania since 1991, and later France Telecom has invested in Orange Romania. Retailers Auchan, having opened its first hypermarket in 2006, plans to invest around EUR 40 million to open its second hypermarket.

German investments in Romania

Germany is one of the most important trade partners of Romania, in March 2007, occupying the fourth position after the Netherlands, Austria and France, with a total registered capital of 1.7 billion and over 15,300 companies registered and operating in Romania. Most German investors are in a small business. More than 90% of these investments are worth less than 40,000 Euros, but still Germany's contribution to the power of the Romanian economy is significant. However, the above amount does not take into account that a large number of German companies have made investments in Romania through their branches in various European countries.

The main areas of investment for German companies were: automobile industry, metallurgy, wholesale, plastic industry, textile industry, IT, financial services, and major players are: Metro, Praktiker, Real, Kaufland (part of the Lidl & Schwarz Group), Selgros, Billa, Tengelmann (Plus), E. ON Ruhrgas, Steilmann, Linde, Heidelberger Cement CarpatCement), Siemens, Dr. Oetker, etc..

The last big investment was made by Willy Kreutz (Freidorf Industrial Park in Timisoara), which has invested 8 million Euros for the production of fluorescent lamps and Schaltsysteme Marquardt has

invested EUR 8 million production plant in Sibiu and plans to invest over \$ 15,000,000 in the production of parts for cars.

Italian investment in Romania

Italy is currently one of the most important trade partners of Romania, ranking among the top five foreign investors with more than 23,900 Italian-owned companies registered in the Trade Register. Main Italian investors are focused on so-called project "intensive work." Traditional sectors in which Italians have invested were textiles, construction, trade, services and agriculture.

The main investors are Italstrade Unicredito Italiano Radicifibres, ButanGas, Pirelli Telecom, Tenaris Dalmine, Radici, Natuzzi, ZOPPAS Cefin.

U.S. investments in Romania

U.S. investors have become key players of Romanian strategic industries such as telecommunications, infrastructure, construction, finance and agriculture. There are more than 5,300 American companies with foreign participation registered in October 2007.

The value of U.S. investments in Romania is about 670 million Euros, the main investors are: Qualcomm, Philip Morris, General Electric, UPC, Citigroup, AIG, IBM, Procter & Gamble, Coca-Cola, Solectron, Timken, McDonald's, Trinity Industries, Kraft Foods, American Life Insurance Company, Precision Cast Parts Corporation, Sara Lee, Smithfield.

Cyprus Investment in Romania

Cyprus is one of Romania's top foreign investors, with approximately 3400 registered companies in late October 2007 and with a total capital value of more than 670 million Euros. All major investment sectors for Cypriot companies are: telecommunications, trade, professional services, food, textiles, etc. Most investments in Romania have been made so far by offshore companies based in Cyprus, but set up by investors from other countries, especially Greece, and investment funds.

Investors so far have been important Synek (clothing industry) and Chroma Holdings (paint industry).

British investments in Romania

UK ranks eighth among foreign investors in Romania, with over 3,400 companies registered with the Office of Trade and with a subscribed capital of 600 million Euros. One of the favorite investment sectors to foreign investors is real estate market with the construction industry, railways, clothing and textiles, energy, agriculture.

Great investors so far are: GlaxoSmithKline, BPB Gypsum Ltd, Mivan-Kier, Coats, Aviva, Halewood, and British Vita. Pay Point Group paid 15.5 million Euros to take the prepaid mobile services company Pay Store, part of RTC Holding. Also Brighthouse DIY retailer plans to invest 25 million Euros in Romania over the next five years.

Greek investments in Romania

Greece occupies ninth place among foreign investors in Romania with more than 4,000 Greek capital companies and a value of the subscribed capital higher than 580 million Euros. The preferred sectors of Greek investors are: telecommunications, construction, IT, Survey as, although plastic, distribution, banking.

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The main investors are: Romtelecom, Cosmote, Alpha Bank, Egnatia, Piraeus, Alexandrion, Loulis, Chip, DIEKAT, Aegef, Terna, Techniki Olimpiaki, Arcon, Maillis, Altec, Alumil, Viohalco, Stiom Marks & Spencer, Body Shop, Germanos Elgeka etc..

Antilles Islands Investment in Romania

Netherlands Antilles is located in the top 10 investors in the country with only 14 companies registered and functional but have a greater subscribed capital of 580 million Euros. Great Antilles investors in Romania are: Mittal Steel Holdings NV and LNM Holdings NV.

Foreign direct investment under the impact of financial crisis

The effects of longer, deeper and broader economic recession in the history of the European Union have resulted in an unprecedented decline of EU trade and investment flows, both in relations with the rest of the world and at intra-EU. Turmoil in financial markets and strong global economic downturn has affected global FDI flows in 2008 and 2009.

Steep decline in FDI in 2009 marked the end of a cycle of five years of uninterrupted growth of these flows in Romania. The expansion of FDI in 2003-2008 was fueled by the sustained growth of world economy, liberalization of trade and investment regimes and implementation of large-scale internationalization strategy by an increasing number of transnational companies.

Compared with some countries in the region, Romania seems to be out of favor with foreign companies. In Poland, for example, FDI was six times higher than in Romania, namely 3.5 billion Euros in the first three months of the year, increasing by 130% over the same period in 2009. The Czech investment fell by 13% in the first three months, 705 million. According to European Commission, however, the Czech Republic was the largest recipient of central and Eastern Europe between 2000 and 2008, the year of onset of the crisis. Also in Turkey, foreign investment decreased by 42% to over one billion Euros, but the country was one of the biggest winners in the region in previous years.

Raiffeisen analysts expect foreign capital flows in 2010 to be maintained at low levels, and actual investment of the Romanian state to be just below the 2009 level, while a significant recovery would be more evident in 2011.

Also, many foreign companies postponed, for now, plans to invest in Romania, due to financial crisis, resulting in the short term, at a moderate pace of growth of foreign direct investment.

In the very near future the Romanian authorities should focus on attracting investors from Asia and East areas less affected by financial crisis, where there are many amateurs to invest in Romania, especially in real estate. In the current context, Romania is not in a position to select the investments, as any project which brings good money in Romania. In the current context, Romania is not in a position to select the investments, as any project which brings money in Romania is good. Thus, the government should pay increasingly more state aid to foreign investors.

Investors want and are forced to make efficient investment. Romania has a significant strategic advantage in this regard by the low cost of labor versus all other EU countries.

The biggest potential investment announced to date, amounting to five billion Euros, is building a steel mill by Voestalpine. The Austrian company analyses more options about the country that will be carried out, but deferred a decision on investment because of the crisis in financial markets and uncertainty related to global economic development.

According to most analysts, the dominant force that will determine the evolution of European and global FDI flows, short and medium term, will be the negative impact of global financial and economic crisis that will still print a downward flow of foreign investment.

Conclusions

After analyzing the evolution of FDI flows to Romania in the last 20 years I have concluded those economic policies, legislative and institutional stability, and providing major incentives can influence investors' decision. The size, the attractiveness and clarity of investment projects presentation offer has a major role in determining the volume of investment inflows.

I believe that a significant role in attracting FDI played the specialized institutions for this purpose - foreign investment promotion agencies. A significant step made by Romania to improve the relationship with investors is to set up the Romanian Agency for Foreign Investments (ARIS), which aims to significantly increase their volume of investment, to promote continuous investment opportunities and provide professional services to foreign investors. Public authorities have taken a number of advantages for attracting FDI; of them mention the market, resources, international relations and also political advantages, social and legislative.

Following the evolution of FDI in 1990 and so far, I noticed that after Romania's potential in 1990 at rates not too high because of political rules of the governments that have succeeded in power, and were not likely to encourage foreign capital to invest within long. The political decision taken in 1999 to open EU accession negotiations of our country and their effective start in February 2000 finally established a signal to foreign investors that invest in Romania can be successful. The flow of FDI attracted during the period 2000 - 2009 is 45.944 billion Euros. The high level of investment flows may be related to the privatization process, many banks and Romanian companies being privatized in this period. This increase is the result of economic policy change. Investment was driven by industry due to advantages offered by Romania in this field such as lower land prices than in other countries in the region, developed infrastructure, skilled and cheap workforce, production capacity and the existence of tradition in this field. The analysis of sector and regional distribution of FDI attracted in Romania revealed strong concentration of foreign capital in these regions and counties benefiting from a higher level of development and physical infrastructure, comparatively modern, and preference of foreign investors for several activities in the services sector (trade, financial services, telecommunications services provided to businesses) that have attracted significant "Greenfield" investment, alongside some traditional industrial activities (metallurgy, consumer goods, automobiles, cement, chemicals, oil processing) characterized by a higher proportion of FDI orientation to purchase state-owned enterprises in the privatization process.

FDI are spread across the economy, and investors come mainly from Europe. Romania is attractive for foreign investors due to low labor costs and highly trained workforce. FDI is important for us because of "the import of know-how" and modern technologies that bring investors from the countries of origin.

However, accession to the European Union, can be considered in the future an impediment for some investors because of the labor remuneration to align with the standards of the European community.

The sector that has attracted the largest amount of FDI is the industry due to lower land prices compared to other countries in the region, highly skilled labor at competitive prices and availability of existing production capacity and tradition at the sector level.

The main advantages for investment in industrial parks are: the possibility of implementing Greenfield and Brownfield projects, access to utilities, government service packages offered by parks, exemption from taxes on land and building.

Currently, the Romanian legislation stipulates: recovery of tax losses from taxable profits, accelerated depreciation, incentives offered by local authorities, tax system, unemployment insurance and investments to stimulate employment, incentives to support economic growth. Other financial incentives are provided through a series of aid schemes.

Dynamics of Foreign Direct Investment Flows in Romania

FDI clearly helps the local economy, making it possible to increase productivity and production in those sectors, while increasing the national income far lower prices and improve quality and offer services and products for consumers. I believe that the investments were not only beneficial for the industry to invest directly, but have also generated positive side effects for the whole economy. Because of the many benefits of FDI, I think they are an essential element in the economic development of Romania.

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