

Emerging Markets Queries in Finance and Business

Macroeconomic impact of FDI in Romania

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Abstract

The paper analyses the impact of FDI in Romania on macroeconomic aggregates of GDP, exports, imports, trade balance, current account and, balance of external payments, focusing on the relationship between main determinants of FDI efficiency for host and origine countries. A special attention is paid to the role of reinvested and expatriated profits of spillovers, transfer, prices and structural patterns of Romania's FDI, under the circumstances of current economic and financial crisis, in an international comparative context.

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Keywords: determinants and macroeconomic impact of FDI; expatriated and reinvested profit; balance of trade; deficit of current account

1. Introduction

Especially in the context of a prolonged economic and financial crisis that doesn't seem to give way to sustainable growth, analyzing and understanding the way and degree that the FDI in Romania answers to the sustainable economic and social development imperative is a particularly relevant research issue. This paper brings forward several aspects regarding the FDI impact in Romania through correlating the dynamic and structure of FDI and relevant macroeconomic indicators, regarding the RDI dynamics and structure, its share in the national economy, the FDI structure, its impact on exports and imports, the ratio between the reinvested and

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returned profit as well as other cooperation patterns between mother companies and their branches in the host-countries

2. FDI volume, dynamics and structure

The amount of FDI, along the transition period towards a market economy and along the pre and post EU accession years, has fluctuated table 1. Between 1991 and 2011, one may distinguish between several sub-periods of the FDI evolution in Romania that may be correlated to the reforms in the economy, as well as to external factors with strong influence over it, such as the association, accession and post-accession to the EU.

Table 1. The number and value of the companies with foreign capital, in the period 1990, 2011.

Time period	No. of companies		Value of issued social capital	
	No.	%	Mil. €	%
Period : 1991-2011	179407	100.00	32480.0	100.00
Pre-association sub-period 1991-1995	38843	21.66	2263.9	6.97
Association sub-period 1995-1999	28525	15.89	2224.4	6.85
Pre-accession sub-period 2000-2006	64586	35.99	10871.0	33.47
Post-accession sub-period 2007-2011	47453	26.46	17120.7	52.71

Source: own calculation based on primary data from „Societăți comerciale cu participare străină de capital”, a statistic synthesis of the data from Central Register of Trade, March 31, 2012, p. 22

The **pre-association sub-period**, 1991-1995, with a strong decline of GDP along the first three years of transition and with a total FDI volume of 2263.9 mil. Euro, was characterized by a one of the lowest FDI per capita level in the Central and East Europe, by relative modest annual evolution and with high multiannual variation from a maximum level of 817.9 mil euro in 1991, to a minimum of 183 mil. Euro in 1995. This period was followed by the **association to EU sub-period** 1995-1999, with a total volume of 2224.4 mil. euro FDI. The sensitive economic downfall bore on the FDI, whose volume spanned from 278 mil euro 1997 to 729.9 mil euro 1999.

During the **pre-accession sub-period**, 2000-2006, the total volume of the foreign issued capital was of 10871.0 mil euro, with annual variations from 243.5 mil euro 2005 up to 833.9 mil. Euro 2002. This high level of FDI is correlated to the beginning of the privatization wave in manufacturing and banking sectors and to the GDP upraise, which, in 2004-2005 finally equaled the 1989 level. The 2007-2011 **post-accession sub-period** was characterized by significantly high growth rates of FDI whose total volume summed up to more than 50% of the total FDI of the whole period. 17120.7 mil. euro. Several economic sectors were wholly privatized, most of them with the contribution of foreign investors, as the foreign capital formed up to 70-85% in some of the privatised companies. This period was also marked by the dawn of the economic crisis in Romania 2009 which, however, hasn't sent away foreign investment, as it amounted to 3.3 bill. euro at the end of the last three years. Yet, despite the FDI growth, the financial and economic crisis has stricken Romania harder than other new EU member states, leading, *ipso facto*, to the conclusion that FDI hasn't played a counteracting role to the crisis phenomena, but on the contrary (e.g. the Nokia case).

Therefore, we may conclude that FDI hasn't had a significant counter-crisis impact on the Romanian economy which, despite the high level of foreign investment, registered annual negative growth rates, of -6.6% in 2009 and -1.6% in 2010. According to statistical data, there seems to be, thus, no reciprocal stimulating relationship between the GDP and FDI in Romania. The literature of the field displays various and contradictory opinions on the relationship between FDI, on one hand, and the technologic transfer and economic growth, on the other. Some authors (Hudea, Stanciu, 2012, p 85), using the Granger causality method, state that FDI positively contributed to the economic growth in the new EU member states between

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