Foreign Direct Investment in Romania - Factors and Implications on Economic Development

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Abstract
A main component of the economic development strategies and an essential instrument in creating a strong and dynamic private sector consist on attracting foreign direct investment (FDI).
Romania has become in the last years an interesting target for a large number of foreign investors. Besides, the integration in the European Union on January 1st 2007, brought new opportunities and it represents a step forward in getting foreign direct investment.
The restructuring process of the Romanian economy requires significant foreign investment flows driven by the increasingly global character of production process. But the investments generate efficiency gains only in conjunction with the simultaneous improvement in the overall legal and regulatory framework (complementary policies and institutions). Therefore, in this paper are analyzed the legal framework with impact on direct investment, the main actors, the influence factors for FDI and the possible effects of these on the economic development.

Keywords: foreign direct investment, Romania, factors, development

JEL Classification: H41, M15, O16

Introduction

Romania has become in the last years an appealing target for a large number of foreign investors. This trend was emphasized after 1st of January 2007 when Romania joined the EU (together with Bulgaria), representing a new chance for the economy development. But it should be taken into consideration that the European Union integration process implies also costs at the economic and political level not only opportunities.

EU membership is a stability anchor for foreign investors attracted by improving business conditions and soaring consumption. Therefore, one of the implications of Romania's accession to the European Union is represented by the increase of the foreign direct investments (FDI) as they represent a main problem around which is placed the entire process of quantifying the costs and advantages while taking into account the present need of capital.

There are two types of reasons for a host state to attract FDI (Voinea, 2002):

- general reasons, derived from the need to improve the overall functioning of the economy, such as: the need for efficient

resource administration (involves ownership changes); the need for foreign exchange; the lack of location advantages;
- conjuncturale reasons, derived from the specific interest of the governs, such as: the need for domestic political capital (in case FDI creates or saves jobs); the need for external image (in order to get further official foreign financing).

The fact is that foreign direct investment can play an important role in raising a country or a region’s technological level, its productive efficiency and its ability to compete internationally. Foreign firms bring new technologies, new knowledge and new management skills, and local firms can learn from this. Therefore, the presence of foreign firms can improve the competitiveness, the expansion of productive capacities, decrease of unemployment but fears can also be raised that foreign competitors crowd out local firms, and a net positive effect on the local or regional economy can not be taken for granted.

FDI was booming in Romania and Bulgaria in the last years, with inflows reaching historical peaks in 2006. This is partially due to privatization, but also to the new investment projects in financial services, trade and real estate. In fact, the same trend was registered by the South-Eastern European countries being a result of increasing economic growth and progress of transformation.

FDI shapes market structures and competition in host country environments and pose governance problems to local authorities, limiting the tools for conducting macroeconomic policies. In a transition economy, as it is the case of Romania, the FDI impact on economic development is amplified by the inherited market distortions and by institutional fragility. Foreign direct investment can not be successful in the absence of complementary policies and institutions (Rodrik, 1999). Investments generate efficiency gains only in conjunction with the simultaneous improvement in the overall legal and regulatory framework.

FDI in Romania

Legal framework with impact on direct investment

In order to improve the business climate and to offer incentives for large investment projects, the Romanian legislation regulating the foreign direct investment is still subject to frequent revisions.

The foreign investors in Romania are stimulated and attracted by free access to domestic markets, the possibility of taking part in privatizations, no imposed limits on foreign participation in commercial enterprises. Also, foreign investors despite the fact that they usually prefer Joint Ventures, are also free to establish foreign-owned enterprises in Romania.

Foreign investors may use as main ways for engaging in business activities in Romania:

- setting up a new commercial company, a subsidiary or a branch (wholly owned or in a partnership with a Romanian part);
- acquiring shares, or by increasing the capital of an existing company;
- acquiring concessions or leases.

Accordingly with the Romanian legislation, the direct investment with significant impact on the economy has a value higher than 1 million USD (or equivalent), is made in the forms and ways provided by the law and contributes to the development and modernization of the Romanian economic infrastructure, determining a positive spin-off effect in economy and creating new jobs. Direct investment with significant impact on economy are allowed in all economic sectors with the exception of financial, banking, insurance and re-insurance, as well as the sectors regulated by special laws.

A significant step forward taken for improving the relationship with the investors is the establishment of a governmental agency in charge with attracting and maintaining the contact with foreign investors in Romania. This is the Romanian Agency for Foreign Investment (ARIS), which has as main objectives to increase significantly the investment volume in Romania, to actively promote investment opportunities and to offer professional services for foreign investors, all along the investment cycle.

Besides the law regarding the direct investments with significant impact on the economy, the other most significant legal incentive offered to direct investment in Romania is the new single tax reform, introduced by the Government at the beginning of 2005. Thus, following a successful model already introduced by other countries in the region, the corporate and individual incomes are levied with a single tax rate of 16%. The fiscal reform was coupled with a softening of the taxation principles on which all fiscal procedures will be based on: transparency, simplicity, partnership with taxpayers, and prudence. This modification brought Romania among the most competitive investment destinations in the region. Presently, the Romanian single tax rate is competitive compared to the other countries levels of taxation (figure 1).

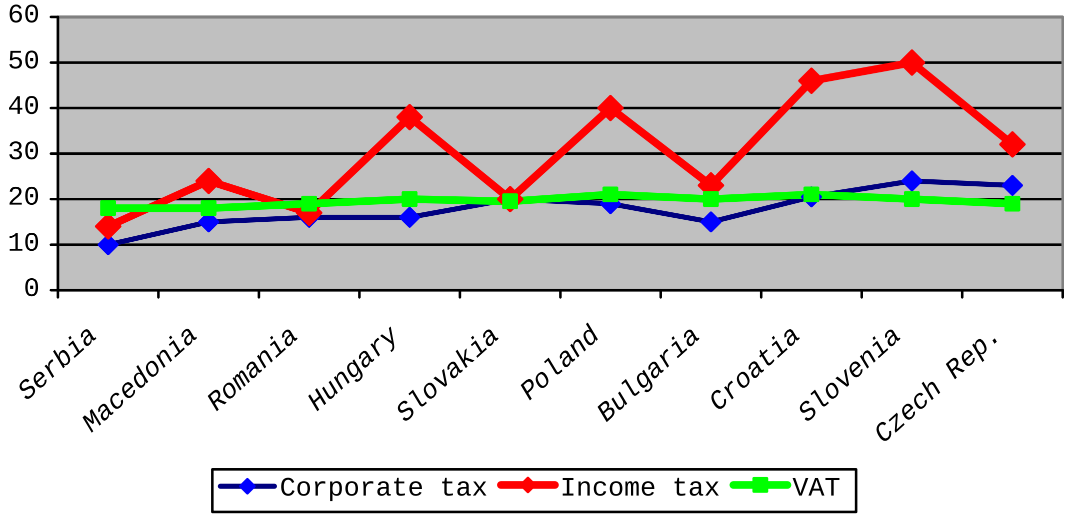

Figure 1. Taxation level applicable in CEE Countries (2006)
Source: Central banks

According to the experience of other countries, the accession to the European Union will increase Romania's competitive advantage in attracting higher FDI, especially in export oriented, labor intensive and high value added industries.

In spite of the advantages of the new single tax system, its downside appeared already after six months. In order to counter the lower taxes collected on corporate and individual income, the Government was forced to raise quotas for other taxes, such as: tax on dividends (from 5 to 10% for individuals, and subsequently to 16%), tax on capital gains (from 1 to 10%, and then 16%).

The new fiscal strategy of the Government puts emphasis on indirect taxes, as compared to direct taxes (which are aligned at 16%, the same quota applicable for tax or income). Moreover, Romania has revised its taxation system in order to bring it closer to the EU system and line it with the recommendations of the World Bank.

Some other changes in the Fiscal Code may take place in accordance with the specific timetables agreed with the EU. Prospective investors should investigate the current status of the fiscal incentives and also consider some future changes as a result of the EU accession when drafting investment plans.

Recent evolutions of FDI in Romania

Once part of the European Union, Romania has created a legal framework consistent with a market economy and investment promotion. Romania plays a leading role in attracting FDI in Central and Eastern Europe (CEE) region. In 2005, out of the total 10.4 billion Euro in FDI attracted by countries in the region, Romania received half of these inflows (figure 2). The positive trend continued in 2006, and hit a record level of 9,059 million Euro which include the followings:

- 4,159 million Euro accounted for stakes held in companies (46% of the total FDI);
- 2,673 million Euro for reinvested net profit (30% of the total FDI);
- 2,227 million Euro for net loans secured from foreign investors (24% of the total FDI).

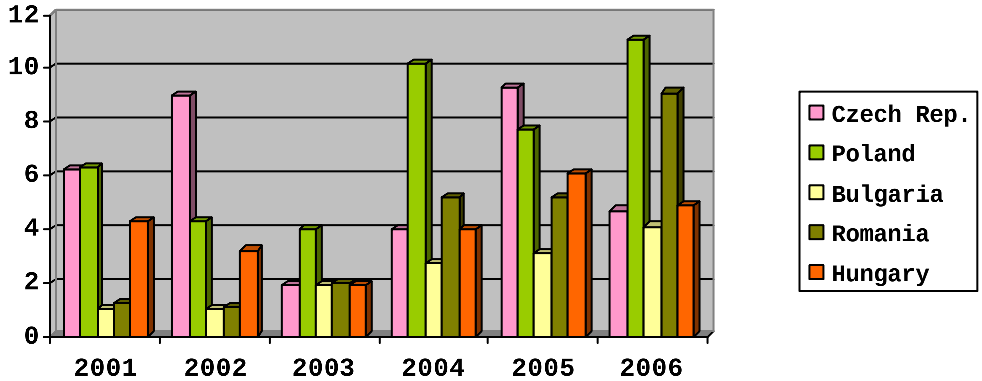

Figure 2. Evolution of FDI in CEE Countries (Eur bn)
Source: Central banks of Czech Rep.,Poland, Bulgaria, Romania, Hungary

On the CEE region, Romania was placed on the second place after Poland, which had a level of 11,093 billion Euro in 2006. The record level of investment inflows In Romania, in the last years, compared to the other CEE countries, was partly a result of the successful privatizations. Inflows were also important in greenfield and expansion projects, particularly, the auto industry and services.

The accelerated economic growth in the last years has placed Romania among the leading FDI destinations in CEE region. Therefore, the investor's interest for Romania increased in the last years constantly. The cheap and skilled labor force, low taxes, the improvements in the business environment, a positive attitude from foreign partners, a liberal labor code and a favorable geographical location are Romania’s main advantages for foreign investors. A direct impact on the FDI level has also the process accession to the EU that changes the investor’s attitude towards the country that now has the status of a member state.

But even Romania has become the main destination for the foreign direct investments among the new EU member countries, the FDI decreased in 2007 mostly because of the international circumstances (global crisis and political instability). Therefore, the value of foreign investments in Romania declined in 2007 by around 20% compared to 2006, to 7,069 million Euro (figure 3).

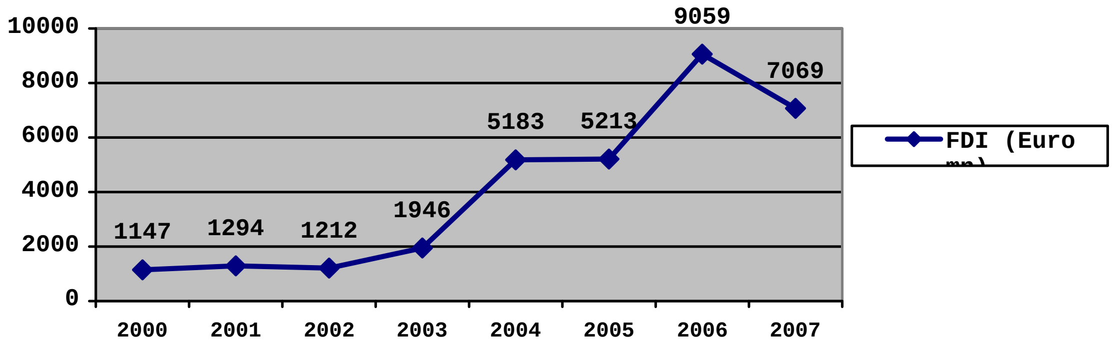

Figure 3. The evolution of FDI in Romania - net inflows (2000-2007)
Source: ARIS INVEST - The Romanian Agency for Foreign Investment

Regarding the *FDI stock,* this increased from 5,4 million Euro in 2000 to 34,512 Euro million in 2006 (figure 4), being formed by:

- the foreign direct investors equity stakes in the share capital of direct investment enterprises in Romania worth 27,016 Euro million (78% of the FDI stock);
- the net credit received from foreign direct investors was 7,496 Euro million (22 percent of net flow).

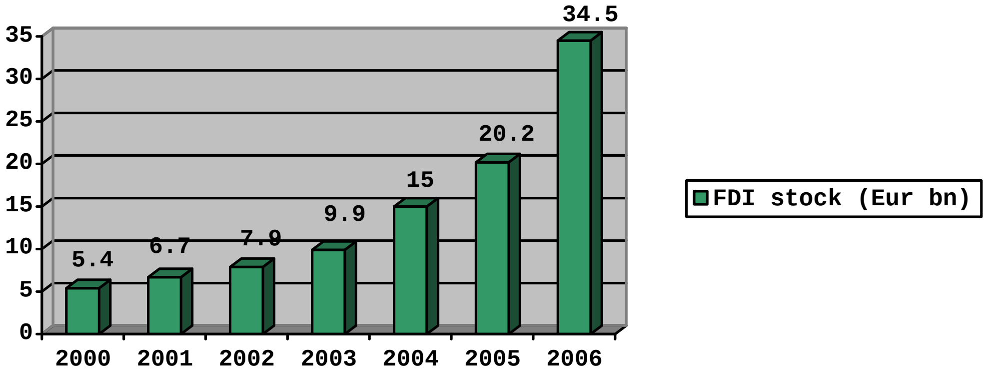

Figure 4. Evolution of FDI stock (Eur bn)
Source: National Bank of Romania, Annual Report 2006, ARIS INVEST

By economic activity, the bulk of FDI went to industry (44 % of total investment), with: manufacturing (34.3%), mining (6.1%) and electricity, heating, natural gas, water (3.6%)(figure 5).

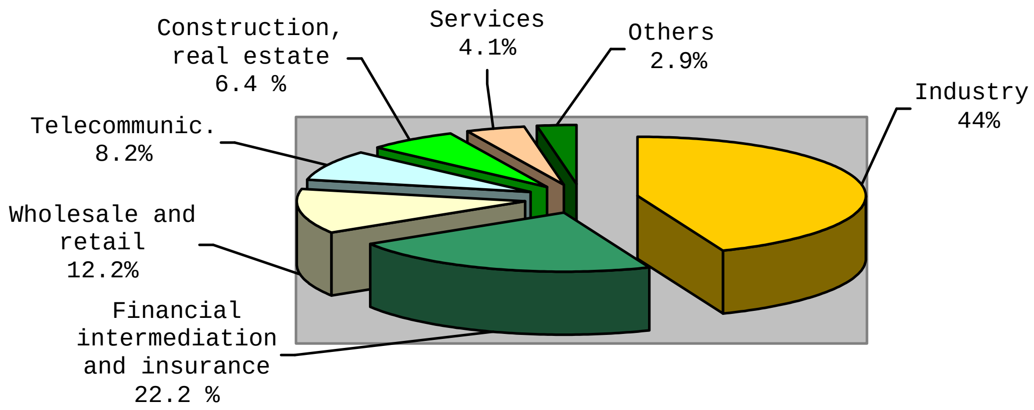

Figure 5. FDI by economic activity (2006)
Source: ARIS INVEST - The Romanian Agency for Foreign Investment

Significant FDI was channeled into financial intermediation and insurance, banking and insurance included (22.2 percent of total FDI), wholesale and retail trade (12.2 percent), telecommunications (8.2 percent), construction and real estate (6.4 percent), and services rendered to enterprises (4.1 percent).

The distribution of foreign investments stock per economic sectors reflects the development and the attractiveness of the industries for foreign investors, dependent also on the privatization strategy.

The types of FDI by contribution to the development and renewal of economic assets in the FDI recipient country are as follows:

- *Greenfield*: investment in the establishment and development of enterprises by or together with foreign investors represents 48.5%;

- *Mergers and acquisitions*: partial or full takeovers of enterprises by foreign investors from residents, and their subsequent development. The M&A represents 51.5% from the total FDI in 2006(table 1):

Table 1: FDI - by types (2006)

Activity sector	FDI stock (Euro mn)	of which	
		Greenfield %	M&A %
Industry, of which:	15,155	32.4	67.6
- mining	2,105	7.4	92.6
- manufacturing	11,782	39.4	60.6
- electricity, heating, natural gas, water	1,268	8.8	91.2
Financial intermediation, insurance	7,678	38.1	61.9
Wholesale and retail trade	4,209	90.7	9.3
Post and telecommunications	2,831	58.4	41.6
Construction and real estate	2,200	72.5	27.5
Other activities	2,439	74.5	25.5
Total	34,512	48.5	51.5

Source: National Bank of Romania, National Institute of Statistics, *Statistical Survey on Foreign Direct Investment (FDI) in Romania for 2006*

At the end of 2006, by types of FDI, the greenfield investment was channeled primarily into manufacturing (13.4 percent of total FDI), trade (12.1 percent), financial intermediation and insurance (8.5 percent), construction and real estate (4.6 percent)

The FDI distribution by the 8 development regions in Romania offers information about the differences of the regional development, mostly because the foreign investors prefer a location which is already developed (table nr. 2)

Table 2: FDI distribution - by Romanian development regions (2006)

Regions	FDI (Euro mn)	% of Total
Bucharest	22,205	64.3
South-East	2,653	7.7
Centre	2,559	7.4
South	2,228	6.5
West	1,948	5.6
North-West	1,570	4.6
South-West	938	2.7
North-East	411	1.2
Total	34,512	100.0

Source: National Bank of Romania, National Institute of Statistics, Statistical Survey on Foreign Direct Investment (FDI) in Romania for 2006

Therefore, from a territorial perspective, FDI went mainly to Bucharest-Ilfov region (64.3 percent). Other development regions receiving significant FDI inflows were the South-East region (7.7 percent), the Centre region (7.4 percent), the South region and the West region (on 6.5 percent and 5.6 percent respectively).

Main actors for FDI in Romania

The *European Bank for Reconstruction and Development (EBRD)* is the largest individual investor in Romania, country which is the third-largest recipient of EBRD funding. In 2006, EBRD signed a number of 106 investment projects in Romania, totaling EUR 3.2 billion. A total of 67% of investments are concluded in the private sector, with its portfolio rapidly expanding in areas such as private sector investment, financial sector development, transport and municipal infrastructure, large-scale privatization with strategic investors. Whenever possible, EBRD encourage the private financing of infrastructure through concessions and build, operate, transfer (BOT) schemes. The Bank is also actively supporting the development of the non-banking financial sector by promoting investment in leasing and insurance companies and in equity, mortgage and pension funds.

The *World Bank* is Romania's largest institutional creditor and its assistance covers all areas of the economy. The World Bank has financed over 40 operations in the country for a total original commitment of almost 5 billion USD. In addition, rural development and poverty alleviation programs aim at improving rural infrastructure, including irrigation systems, social services and the rural finance system, through a participatory process. The World Bank's assistance focus is progressively changing from financing the "hard" sectors, such as industry and infrastructure, towards the "softer" sectors, such as human development and social protection, health, education and environment. In the coming future the World Bank is set to increase its involvement in developing rural infrastructure, providing finance to rural areas, social sector development, agriculture and forestry.

In support of the country integration into the EU community, the *EU Commission* actively assisted Romania technically and financially. It is estimated that the non-reimbursable funds that were made available for Romania in the last couple of years were up to EUR 650 million annually. The funds were allocated for projects supporting convergence with the EU and focused on updating the legislation, aid to institutionalized children, supporting solutions to minorities' issues, etc. (European Central Bank, 2004). The Government main tasks in the integration process were focused on the followings: creation the conditions for a functional market economy, increasing the financial discipline, reducing inflation and privatizing the big state-owned companies in order to reduce losses.

As part of the EU, Romania will benefit of structural, post-accession funds, as part of 7-year allocation plans, in amount of 19.6 billion EUR. The main recipients of these funds will be local and state administration, mainly for infrastructure projects.

The amount of FDI in a country is dependent also upon the privatization strategy adopted by the government (Campos, Kinoshita, 2003). Until the end of 2006, the Romanian government has privatized most of the sectors of the economy. The largest privatization deals concluded are: Romanian Commercial Bank (sold to Erste Bank at the end of 2005), Petrom (the national oil company, sold to OMV in 2004), Agricultural Bank (sold to Raiffeisen Bank in 2001), Sidex - the giant steel mill (sold to LNM Ispat in 2000), Romanian Development Bank (sold to Société Générale in 1998), and Dacia car manufacturer (sold to French Renault in 1997).

Romania is actively integrated into the European economical environment, as reflected by the distribution of FDI per countries of origin. The top ten countries' classification according to foreign capital registered at the end of 2006 were the following: Austria (23 percent compared with only 15.4 percent a year earlier), the Netherlands (17.1 percent, down from 19.5 percent in 2005), Germany and France (10.1 percent and 8 percent respectively, staying flat on a year earlier), and Greece (7.8 percent, down slightly year on year) (figure 6).

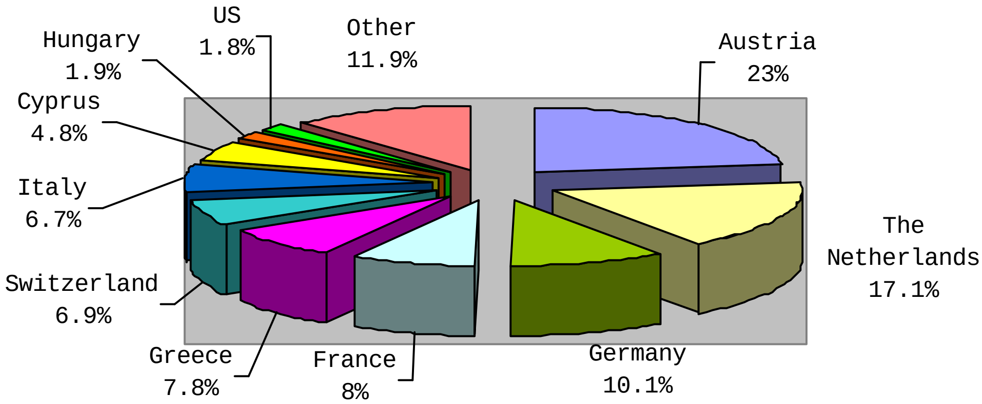

Figure 6. FDI distribution - by country of origin (2006)
Source: National Bank of Romania, National Institute of Statistics, Statistical Survey on Foreign Direct Investment (FDI) in Romania for 2006

Since 1990, *Austria* has constantly been among Romania's most important trade partners. Currently, Austria ranks first within the classification of foreign investors in Romania with over 4,100 companies having Austrian capital, and over one hundred thousand employees in joint ventures.

With over 17% of total foreign investment in Romania, *The Netherlands* occupies the second place in the top of foreign investors. More than 2,600 companies activating on the Romanian market have Dutch capital.

Germany is one of the most important commercial partners of Romania, with a total value of registered capital brought in foreign currency of 3.4 billion Euro and over 14,000 companies registered and operating in Romania at the end of year 2006. The majority of German investments are in small businesses; more than 90% of these investments amount to less than 40,000 EUR but the Germany's contribution to the strength of the Romanian economy is substantial. The main investment sectors for the German companies are: automotive industry, metallurgy, wholesale trade, plastics industry, textile industry, retail trade.

Over 4,600 French capital companies are registered with the Romanian Trade Registry, *France* occupying currently the fourth position in the top of foreign investors in Romania. French investors were mainly interested in companies being privatized, greenfield investments being less preferred.

Italy is also one of the most important commercial partners of Romania with more than 21,000 Italian capital companies registered with the Romanian Trade Registry in 2006. Mainly Italian investment is focused on the so-called "labor intensive" projects, developing the lohn system with raw materials brought from Italy. The traditional sectors in which Italians have been investing so far are textiles, construction, trade, services and agriculture.

American investor became key players within a series of strategic Romanian industries such as telecommunication, infrastructure, construction of large machines, finance, and agriculture. There are more than 4,800 companies with US participation registered in 2006.

The foreign investment funds are among the most active players acting on the Romanian market. The investment fund is defined as a venture capital association set-up as a closed investment fund or investment company, which manages the funds of private or corporate persons. Their presence on the market was simultaneous with the consolidation of the private sector. The targeted companies have an important growth potential, a steady market and a competitive management.

Regional funds are becoming more active compared with country funds, particularly with respect to large deals. Competition, not very intense until recently, is becoming stronger among the funds. Offering, besides financing option, know how, the funds are now of interest for investors, especially in lack of a serious competition coming from the banks. The banks are not a threat for venture capital funds in the real economy, as they are not yet prepared to provide long-term development financing. This leads to relatively low entry valuations and may ensure significant returns. As the capital market is still not enough developed, the most probable exit route to be used by the funds active in Romania is via sales towards strategic investors.

Influence Factors for FDI - possible effects

The significant stabilization of the macroeconomic environment stimulated by the EU convergence process and the gradual harmonization of the legal and institutional framework have played an important role in facilitating the major improvement of the operating environment in Romania.

Traditionally leveraging on low labor costs to attract foreign investment, Romania is now profiting from a number of additional features. Thus, there are several main influence factors for the increase of FDI including the new opportunities arising from EU accession, a rather flexible and business-friendly operating environment, a good labor force and a fast growing domestic market. Related to these, others factors could bring their contribution to the FDI evolution.

Thus, cost advantages continue to play a role in shaping Romanian international attractiveness. Sectors with high incidence of labor costs and specialized in standardized products (i.e. textiles, leather) have traditionally been among the most attractive for foreign enterprises. Particularly interesting is the case of textiles with many Italian companies delocalizing production in Romania via their own production sites or through outsourcing contracts, whilst keeping their commercial base, product design and other production phases with higher value added in Italy.

With gradually rising costs and increasing competition from Far East countries, substantial differences emerge among products, even within the same sector. Where standard machinery and the availability of a low/medium qualified labor force are required, competitive pressures are taking shape and companies are starting to look at other attractive markets with lower production costs (i.e. Far East). The fact that in this sector the presence of foreign companies is structured very much on contract-work systems (with foreign companies outsourcing part of the production process to local enterprises) represents one of the main weaknesses in the country, as exit costs for a foreign investor or foreign contractor are extremely low.

For some more technological production processes, where physical investment is needed, there is also potential in the medium term. Still, the relatively negative developments affecting the sector are already reflected in the performance observed in recent years, with industrial output in textiles and textile fabrics registering negative growth of – 3.4 % on average in the 2001– 2006 period compared to the average yearly growth of the manufacturing sector above 5%. It should be noted that while in some cases choosing to produce in Romania already appears to be already overcome, some companies are finding good opportunities by focusing on higher value added products or low delivery times where pressures on costs are lower.

In sectors characterized by medium contributions of technology, important examples of delocalization can be found in fast growing segments like other non metallic mineral products. This sector has been among the main targets of international groups since the mid 1990s as Romania benefits from both natural resources and output capacities. The foreign companies entered the market by acquiring existing companies or by developing greenfield projects. The strong development of the construction industry expected in the coming years will continue to have a positive spill over effect on this sector too. Major FDI has also been attracted in sectors like electrical&optical equipment. The industry recovered at a slow pace during the 1990s but accelerated between 2003 and 2006 in terms of output and exports (mainly to EU markets), thanks also to the entry of new and competitive foreign investors, especially in the fields of electrical equipment, measurement instruments and telecommunications equipment.

Certain traditions in the country and the cheap labor force are still the main factors of strength in the transport equipment sector. However, some branches, like motor vehicles and shipping, are performing very well, while others (aircraft and railways) are characterized by disappointing results. Automobile is the most important segment. Aside from Renault (which entered the market by acquiring the local brand Dacia), worldwide companies making spare parts for the automotive industry invested in Romania mainly through greenfield projects. Being export-oriented, the car industry’s results in terms of revenues have been quite astonishing in recent years. The other segments, such as shipyards, have benefited lately from the good management practices introduced by foreign owners. Additionally, the booming of China and other Asian economies has increased the demand for industrial goods to be delivered by shipping.

A rising number of foreign investors are targeting Romania to capture the strong potential connected to the large local demand – (especially in the field of retail sales, real estate and financial services) and the need to renovate and build up local infrastructure. Many companies consider the Romanian market very appealing in view of its growth potential compared to the much more saturated western markets, targeting it for the commercialization and production of cheap products, gradually widening the product range as soon as demand evolves in the market. The financial conditions of households have significantly improved in recent years, and easier access to credit has strongly contributed to further stimulating growth in consumption, as individuals gradually adjust their needs to EU standards.

Given the positive economic prospects expected in the forthcoming years, the fast increase in local demand makes the market particularly appealing for the retail segment, with many international retailers (like Metro, Carrefour, Billa, etc.) planning further investments in the coming years. In some cases, the launch of big projects connected to the modernization of infrastructure and the possibility of benefiting from EU co-financing represented strong motives for moving into the country.

Such trends provide an indication of an increasing tendency toward the emergence of positive “spill-over” effects connected to the establishment of a presence in Romania, which should increasingly involve sectors like services to enterprises (with higher value added activities involved). On the other hand, it also responds to the attempts to transform Romania into a production base for the rest of Central Europe based on the need to save on transport costs and be close to the customer.

In some cases, the choice to move to Romania has been driven by the strategic positioning of the country. This allows other Eastern markets to be penetrated where the establishment of a direct presence may still be too risky, due to the relative uncertainty of the operating environment (Floyd, 2002). Even in the case of commercial internationalization, the possibility of leveraging the good geographical position of the country represents a strong stimulus to enter this market.

Romania offers some interesting examples of delocalization connected to a follow-the-client strategy. The decision to move production to Romania is taken into consideration by the management to counterbalance increasing pressures arising from Far Eastern economies, but was also induced to a large extent by its main customer. The pressures to delocalize in Romania could be associated with the need to combine lower production costs with geographical proximity to the final destination market.

The outlook in terms of foreign direct investment is very positive, boosted by EU entry in 2007. Several studies (Bevan et al., 2006) indicate that there has been a correlation between the notification related to the European Union expansion and the evolution of the direct foreign investment in-flow in the Central and East European countries. Thus, the announcement made by the Council from Essen in 1994 was followed by a significant increase of direct foreign investment in-flows in Hungary, the Czech Republic and Poland.

So far, Romania has been one of the main beneficiaries of EU pre-accession funds (some 2 billion EUR in the period 2004 – 2006) and in the 2007 – 2013 period about 19.6 billion Euro is expected to flow into the economy as structural funds.

Given the problems previously encountered as regards absorption and management (mainly in the SAPARD program), the efficiency related to using these funds remains crucial. As stressed by the EU Commission, significant improvements are still required in the area of financial management and controlling structural funds.

Together with the remaining steps necessary in view of adopting the euro (planned not earlier than 2014), strong efforts will be targeted to achieve further improvements in the predictability of fiscal policy, efficient use of EU grants, continuing and deepening structural reforms and improving the investment climate. In this respect, the new investment law is expected to provide a further boost to the inflow of foreign capital in Romania.

Strong stimulus will also come from the launch of large infrastructure projects connected to the renovation and development of local infrastructure. The construction industry is expected to be one of the most beneficial sectors, with sustained growth prospects also in connection with new projects in the areas of road transport infrastructure and positive spillover effects expected in other sectors of the economy too.

Some opportunities are also connected to the remaining privatizations in public utilities distribution (gas, oil and electricity), salt and gas exploration, public transportation, banking services or pharmaceuticals. All these factors create the premises for sustained inflows of FDI, expected to exceed 5 billion Euro per year on average over the 2007 – 2009 period.

Despite the favorable circumstance for the FDI development, it can not be neglected the *slowness of the bureaucratic system and the high turnover of personnel as major sources of inefficiency.* Additional efforts are required to modernize the public sector and reform public administration, with inflexibility in the functioning of the market still affecting the transaction costs of companies. Substantive changes to the country’s labor laws have taken place, but in many areas they remain archaic.

Moreover, there is an increasing risk of a lack of management competencies following EU accession, which may drive salaries up to high levels. Most entrepreneurs claimed that this is already a problem in some sectors, where the gap between supply and demand has led to spectacular rises in salaries in order to attract staff, and even more importantly, experienced managers. Prospects for the coming years are not reassuring, with shortages of professional and skilled workers expected to become a growing problem, posing a challenge to foreign investors as increasing numbers of Romanians seek employment abroad.

There are also increasing risks of a shortage of unskilled workers in sectors like construction, as greater numbers join the ranks of construction workers in other EU Member States at a time when the Romanian construction sector is experiencing a boom and requires larger numbers of workers. Possible strategies to temper such a phenomenon together with the problem of high turnover in personnel should go beyond purely financial incentives, focusing rather on trusting employees and their proper training.

Experience has shown that, generally speaking, the adoption of the European norms has had benefic consequences on direct foreign investment inflows, but, however, there existed negative situations, as well (Giurca, 2007). Domains such as the market of financial bonds and the non-banking financial services have been proved not to have a positive impact, and, in case of the competition-related regulations, the impact has actually been negative.

Conclusions

Romania is at a maturity stage from the point of view of direct foreign investments, which show an ascending tendency. But compared to the potential of a market with 21.2 million inhabitants, great natural resources, skilled labor and flexible legislative environment, the direct investment flows have remained relatively low. Besides, Romania has lowered personal income and corporate tax rates and strengthened tax administration in order to attract the investor’s interest. Though, the legislative unpredictability continues and determines the investor’s lack of confidence.

Nonetheless, FDI encountered a large number of risks when investing in CEE countries and especially in Romania: unemployment, labor migration, inequalities between Romania’s regions, contrasts between rural and urban areas, the fragile democratic consensus (Pavlinek, 2004). Policy makers in Romania planned to attract FDI by minimizing these risks, expecting that FDI inflows will help increase productivity and competitiveness on domestic industries.

Among the advantages that are deemed to support the FDI in the future can be mentioned:

- Romania is a politically and socially stable country;
- Romanian became member of EU at 1st January 2007;
- Romania represents the second largest market in the CEE region;
- Romania has gained full membership of NATO;
- Continuous privatization, restructuring and administration reform;
- The crucial geographical positioning of the country, a gateway between East and West of Europe;
- The commitment of investment funds present in the country to develop their business;
- The association of the government with international financial institutions, such as IMF, EBRD, World Bank and the EU Commission;
- The high qualification of labor force and its low costs, below the levels of other countries in the CEE region;
- Existence of important natural resources and proximity to energy suppliers;
- There are increasing business opportunities as the market is growing and the entry barriers remain low.

Taking into consideration these factors, Romania is ready to accommodate a higher inflow of FDI in industries such as agriculture, construction materials, automotive industry, oil and gas, petrochemical, energy, metallurgy, telecommunications, transportation, air transport, railways, shipping, food industry, retail, tourism, IT, financial sector, and distribution. Among these sectors, the most appealing for foreign investors are automotive, software, electronics, telecom, pharmaceutical, and chemical industries.

Having in view that FDI in a country is facilitated, inter alia, by the development of the infrastructure, the efficiency of administration, and by an adequate legislative system, the international financial institutions are actively supporting Romania in its efforts to meet these criteria and to surpass the difficulties.

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