

Trufin, Ovidiu Serafim

**Article**

## Foreign Direct Investment and Economic Growth in Romania's Development Region North-East

CES Working Papers

**Provided in Cooperation with:**

Centre for European Studies, Alexandru Ioan Cuza University

*Suggested Citation:* Trufin, Ovidiu Serafim (2010) : Foreign Direct Investment and Economic Growth in Romania's Development Region North-East, CES Working Papers, ISSN 2067-7693, Alexandru Ioan Cuza University of Iasi, Centre for European Studies, Iasi, Vol. 2, Iss. 2, pp. 11-16

This Version is available at:

<https://hdl.handle.net/10419/198072>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<https://creativecommons.org/licenses/by/4.0/>

# FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN ROMANIA'S DEVELOPMENT REGION NORTH-EAST<sup>1</sup>

Ovidiu Serafim Trufin

“Alexandru Ioan Cuza” University of Iași

**Abstract:** *One of integration's advantages it is represented by the increasing grade of economic opening toward the rest of the world, with benefic effects over intercepted foreign direct flows, reciprocal flows of working force and work productivity. Given this context and taking into account analyses presented in our research, I appreciate that North – East Developing Region will further attract larger flows of foreign direct investments, flows that will in turn accelerate, through chain effect, the process of regional development.*

**Key-words:** foreign direct investments, economic growth, development regions, regional dissimilitude, competitive advantages.

**JEL classification:** R11, E22

FDI–economic growth relationship: reciprocal relationship between foreign direct investments and economic growth it is due, on one hand, to their impact over de economic environment in every country and, on the other hand, to positive influences which sustained and lasting economic growth have over foreign assets flows receipted. According to experts, for a certain country, intense growth periods are characterized by attracting some important flows of foreign direct investments (Lipsey, 2000). In the same time, investments, indigenous and foreign, represent an essential factor of the economic growth, patterns elaborated in this matter (the most known being that of R.F.Harrod) reflecting the functional and real connection between accumulation rate and the rate of growth of national income, mediated by capital coefficient. The potential positive impact of FDI attracted into a certain country over its economic growth must be also seen through redistribution angle.

Foreign direct investment (FDI), its determinants, and its effects have been extensively studied. It has long been recognized that the benefits of FDI for the host country can be significant, including knowledge and technology transfer to domestic firms and the labor force, productivity spillovers, enhanced competition, and improved access for exports abroad, notably in the source

---

<sup>1</sup> This work was supported by the the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646]

country. Moreover, since FDI flows are non-debt-creating, they are a preferred method of financing external current account deficits, especially in developing countries, where these deficits can be large and sustained. At the same time, FDI can be a mixed blessing. In small economies, large foreign companies can—and often do—abuse their dominant market positions and, especially in developing countries, attempt to influence the domestic political process. Large investors are sometimes able to coax concessions from country governments in return for locating investment there, and aggressively use transfer pricing to minimize their tax obligations. FDI can also give rise to potentially volatile balance of payment flows. On balance, however, the consensus view in the literature is that the benefits of FDI tend to significantly outweigh its costs for host countries. Graham (1995), Borensztein, De Gregorio, and Lee (1995), and Lim (2001), provide useful overall surveys of the literature on the impact of FDI on the host country. Holland and Pain (1998) presents the evidence on diffusion of innovation, and Javorcik (2004), Javorcik, Spaggi, and Spartarenu (2004), and Alfaro and others (2003) discuss productivity spillovers. Finally, Lipschitz, Lane, and Mourmouras (2002) present a theoretical overview of the policy implications of large capital flows, including FDI.

Nord-Est Region is the less developed region of Romania (BIP/ inhabitant 70% of national average, 2000). The extended area of poverty comprises the south of Jassy county, south-east of Neamt county, east of Bacau county and counties of Botosani and Vaslui entirely.

The western region, mostly, which in the '60 – '70 was the object of forced industrializing (furniture, chemistry, construction materials, machine construction, textiles), entered into a deindustrialization in the last 10 years (manufactures from chemic and petrochemical industry, light industry, machine construction, furniture), which aggravated the economic status; thus, eastern of this region is traditionally under-developed.

Numerous working persons in this region are working nowadays, temporary or permanently, in different domains in Western Europe or Israel. After male youth working force living form Bucovina villages, it is observed an emigration tendency of women also, willing to work abroad; thus, elders and children are the only inhabitants of these villages. The impressing aspect in these villages is the activity of construction. This is the way discrepancies between localities pointed out from the general level of development point of view and, moreover, of infrastructural endowment.

Unemployment rate for every counties exceeds country's average, being overdone in Neamt county (14.1%) and Vaslui county (13.3%). It indicates a decreased level of economic activity in these counties.

A decreasing of employed population in the region has been noted in the last 3 years. The fact is strengthened in Botosani County, where the most part of population works in agriculture.

If the others counties of the region had noted clues of some economic change, economic situation is still precarious in Botosani, Iasi and Vaslui, even if there are numerous textiles manufactures which activate in Lohn system here; the slightest movements of international requests lead to salary cut-offs, unemployment or even closing the factories.

Roads infrastructure, water and sewerage system network are problematic in Botosani, Iasi and Vaslui counties. Also, these counties face an obvious lagging behind from industrial and agricultural technologies point of view, a reduced level of qualified population, and environment problems, caused by the lack of water resources, old break-ups, serious earth sliding and deep phreatic layer.

Besides development dissimilitude between west – east, dissimilitude between urban and rural are more obvious in North-East Region, from general stage of development, infrastructure, investments involvements point of view. There is also an alarming phenomenon about the decline of small and medium cities, mostly those mono-industrial, tending or even stopping the link to economic grown process, being incapable to fulfill their urban functions.

Starting from the potential effects of FDI towards implanting economies and developing regions according to the penetration rank of foreign investments, I further propose an analysis of North-East Region of Romania; I want to emphasize the developing features, focusing on the role of foreign direct investments in reaching the goals of economic development. For that, I will analyze regional development activities, emphasizing the main features of the region, FDI – economic growth relationship, regional dissimilitude in Europe and Romania.

North-east Region is marked by both its addiction to agriculture and the proximity of Moldavian and Ukrainian borders. This is valid, to some extent, for South-Muntenia Region too, also depending on agriculture, having the Danube as a barrier in across the border commerce. The western and central regions of the country have been advantaged by their closer position toward the western markets and lower addiction to the primary sector. So far, they benefited the most from foreign direct investments.

Despite insufficient studies concerning regional dissimilitude, it is still obvious that alongside reducing the state sector in economy, interregional dissimilitude have deepened and aggravated, tending to dominate the Romanian reality, as it is shown in the table:

**Table 1 Evolution of GDP and labor productivity in developing regions over the period 1998-2000****- Euro -**

Region \ Indicators	Rom	NE	SE	S	SW	S	NW	C	B - I
<b>GDP/per capita</b>									
<b>1998</b>	<b>1.663</b>	1.327	1.665	1.426	1.497	1.678	<b>1.588</b>	1.760	2.697
<b>2000</b>	<b>1.795</b>	1.256	1.596	1.464	1.504	1.842	<b>1.669</b>	1.924	3.712

Source: www.admordest.ro

On the general, the discrepancies in North-East Region are pointed out as a level, but also as a potential for development between the more developed west of the Region and the less developed east (Botosani, Iasi, Vaslui counties). The chance for the eastern areas, adjacent to the eastern border of the European Union, Ukraine and Moldavia is to develop an area of transit services for goods originated in the countries of former URSS (storing, ennobling and preparing for segmenting and packaging, etc). In that matter it must be done work in infrastructure, for creating some zones with specific facilities, similar to those in Belgian, Dutch and German harbors, specialized in this kind of services.

The mountain and hilly areas in the western region (Suceava, Neamt, Bacau counties) have a precious tourist potential, mostly (except for Bucovina) insufficient developed, but which, with the help of adequate measures, can easily enter the European tourist circuit as “religious tourism” (Putna, Neamt, Sucevita, Moldovita, Voronet), balneo-therapeutic tourism, agro-tourism, hunting tourism.

Both the rank of endowment of the localities and the originality of Bucovina landscape and the distinct specific of the villages, with a high rank of civilized population, can play a role in long-term tourism, with sport activities, recreation and improving health (Vatra Dornei, Cacica, Bistrita Valley).

Consequently, to the extent Romania can solve and eliminate the causes which generate “lagging behind” registered so far, it can also attract large flows of foreign direct investments, capable to generate wanted chain effects produced by FDI in the economies where the critical mass of foreign capital was reached (as for example, Hungary, Czech Republic, Slovakia, etc) , accelerating thus the process of real convergence with the countries of the European Union.

Having this context, the internal economic growth (the private consumption), sustained by productive investments, local and foreign, will further impel the wanted growing in work productivity, mainly, as a result of improving quality of productivity of the existing factors.

Therefore, massive penetration of oriented foreign capital toward the activities incorporating a high level of local resources and, mostly, of technology and knowledge, will favor improvement of existing production factors quality and creation of specialized production factors, similar to the situation recorded in other central and east European countries which adhered the European Union in 2004, with a significant positive impact on social and economic level.

## CONCLUSIONS

As bigger and bigger flows of foreign direct investments penetrate the economy, their impact over the economic and social environment will significantly depend on governmental policies applied by the decisional factors. Thus, both the theory and the economic practice, including the other Central and East European states experience, prove both the importance of applying some active measures, of orienting the attracted FDI, and of the host-county actions toward modernizing the infrastructure and rising the qualification level of population.

Having the context, we appreciate that Romania's long-term developing strategy must focus with priority on improving human and technological capabilities, the only viable option for reducing the discrepancies toward the other members of the European Union. Consequently, the main measures should focus on the following aspects:

- Improving the quality of human resources through rising investments in education, including those centered on continuous forming of working force, because building a society based on knowledge it is possible, only under the circumstances of a higher education.
- Stimulating activities of research-development, including through realizing partnerships between public and private sectors;
- Encouraging local initiatives, through reducing hierarchy and creating an efficient administrative framework;
- Encouraging investing firms to develop activities to generate high added value and to invest those activities which increase comparative advantages of indigenous resources;

- Stimulating forming clusters based on related activities, included through more active involvement of local administration in solving investors' problems and requests.

## REFERENCES

- Anghel, I.E. (2002), *Investițiile străine directe în România*, Expert Publishing House, București.
- Bîrsan, M., Hunya, G., Siedschlag, I. (2008), *Foreign Direct Investment, Economic Growth and Labor Market*, Ed. Fundației pentru Studii Europene, Cluj-Napoca.
- Dunning, J.H., Narula, R. (1998), *Foreign Direct Investment and Governments, The investment development path revisited: some emerging issues*, Routledge, London.
- Lall, S. (1996). The investment development path. Some conclusions, in John H. Dunning and Rajneesh Narula, eds., *Foreign Direct Investment and Governments*, Routledge, London, pp. 423-441.
- Mazilu, A. (1999), *Transnaționalele și competitivitatea – o perspectivă Est-Europeană*, "Economică" Publishing House, București.
- Narula, R. (1996). *Multinational Investment and Economic Structure: Globalisation and Competitiveness*, Routledge, London.
- Roberts, B.M., Thompson, S., Mikolajczyk, K. (2008). *Privatization, Foreign Acquisition and the Motives for FDI in Eastern Europe*, Kiel Institute, at <http://www.springerlink.com/content/w27795654842j70h/fulltext.pdf>.
- Șerbu, S.G. (2007). *Investiții străine directe*, Casa Cărții de Știință, Cluj-Napoca.
- Stoica, M. (2005). *Investițiile și dezvoltarea durabilă*, "Universitară", București.
- Voinea, L. (2003). *FDI in Romania Matures «FDI in Romania Matures»*, Central and Eastern European Online Library, at <http://www.ceeol.com.aspx/getdocument.aspx?logid=5&id=5f05e7b3-cdc6-4474-ac8e-d6f9d80764ad>.

[www.adrnorddest.ro](http://www.adrnorddest.ro)

[www.ceeol.com](http://www.ceeol.com)

[www.mdrl.ro](http://www.mdrl.ro)