# FDI influence over Romanian exports

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**Abstract:**
Competition between countries, regions, company groups and individual companies is getting more and more complex due to globalisation and trade liberalization. Constraints on companies competitivity, especially on SMEs are harder to identify and outrun. International trade and trade financing are slowly recovering after the financial crysis, but the impact over global exporters and the economic implication are not totally obvious. New rules and reglementations for a more careful behaviour of the banks and financial institutions will surely have an impact over exports as well as prudent relations of the banks espeially with the SMEs.

**Keywords:** Foreign Direct Investments; Competitivity; Export.
**JEL Classification:** G01; G32; F36

## 1. FDI effects on foreign trade

Current context requires radical changes in the way of involvement in international trade and in export, so as to companies, groups of firms and in the manner in which support institutions back up companies to apply the best solutions to create and maintain durable competitive advantages. We have to remember that from both EU and national perspective, important changes in world trade structure (emergence of new trading powers and the increasing importance of non-EU markets), redirecting a part of exports to non-EU target markets are extremely important.

Romanian exporters still lack managing skills necessary to handle the new business model, which explains in part why the vast majority of exports is still in subcontracting. Also, few exporters have strong brands for export or are innovative exporters.

The 2005-2009 period was not linear over the Romanian economy. EU adherence in 2007 meant new pressures on Romanian exporters in terms of adaptation to unique market requirements. However Romania has performed well in exports after adherence despite pessimistic forecasts. Between 2005 and 2009 exports grew faster than imports with a historical peak in 2008, for the entire period since 1989. The global financial crisis had an impact on exports, especially in 2009, but compared with other indicators such as imports, internal demand, GDP or unemployment, have declined less ( World Investment Report, United Nations Conference on Trade and Development, New York and Geneva, 2009).

Internally, 2009 was an extremely difficult year, with a compression of consumption, in some cases up to 30-60%, with major repercussions in the massive amount of orders and delays in debt recovery, with 127.000 companies which suspended their activity (number valid for the January-November period in 2009), with a decrease of 70% of the mergers and acquisitions market, salary drop of 20% compared to 2008 and a deeply indebted retail sector. Exports, although reduced in 2009, had a less severe decline than imports.

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Focusing on sustainable competitive advantages and boost or guideline companies to invest in export production or helping them to be present on global markets, 2005-2009 National Export Strategy contributed to the attenuation of the crisis effects in various sectors such as automotive components, industrial equipment, construction of parts of ship, organic food, furniture etc.

In these circumstances, the export trade was beyond expectations and exceeded pessimistic forecasts. National Export Strategy (NES) 2005-2009 has contributed to this positive evolution of exports because of the bottom-up approach, of consultation in the strategic cycle period, so that the objectives and initiatives did not come from outside of the business, but they were solutions assumed from within. The strategy was addressed to some major constraints of the export business community, identifying ways to overcome them in order to achieve the competitive objectives.

The main objectives of the NES 2005-2009 were related to the stimulation of the capacity of firms to create, add and capture value on the national value chain and the development of the exporting companies' skills, sustaining and promoting the exporting sectors and their external image.

The main achievements were in the area of quality management, change of the export structure, developing brands, achieving trade portal.

There was also a continuous growth in exports between 2005 and 2008, with annual percentages ranging between 13,7% - 17,5%, which in 2008 allowed a monthly rate of export growth of 14,4%, which for the first time in post-communist Romania has exceeded the growth rate of imports (10,5%). In 2009, it was worthy of note the reducing of the negative effects of the economic crisis in terms of export performances. During the last months of 2009, exports showed signs of recovery which continued in the first 8 months of 2010, being the only indicator that is 10 months consistently positive. In late August 2010, the volume of exports was 25,1% higher than the same period of 2009 and above 2008, which was a record year in Romania in the last 20 year. ( www.europa.eu.int).

Regarding the structure of exports there is clear statistical data showing that groups of products covered by the export strategy are among those who had increases in the 2005-2009 period. New emerging export sectors such as organic farming, information technology services and communication and audio-visual confirmed their export potential and have become export sectors in the 2005-2009 period.



Between 2005 and 2009, exports of high technology goods, with high added value, registered increases of up to 25% per year, which shows a tendency to a continuous improvement of the competitiveness of exported goods. A higher increase was recorded in the export of services, especially the IT services, which reached more than half a billion euros last year, being now considered a significant achievement of the new export portfolio from Romania.

Given the lessons learned in the first strategic cycle and the current domestic and international context, the national export strategy for the next period (2011-2014) will focus more on ( National Export Strategy of Romania, Ministry of Economy, Trade and Business Environment):

- increase export culture within the local business community;
- strengthening institutional collaboration for a better NES efficiency;
- concerted approach of initiatives in programs and projects which will be the subject of a multi-annual approach from the project management perspective;
- exploitation of resources in a sustainable export activity;
- strengthening national value chains to increase the added value of the exports;
- promote innovative local companies;
- long-term consistent and efficient approach of resources;
- strengthening the current market share and exploring new international markets.

The activity of a company which is a foreign direct investment, as a whole, has a positive impact on the trade balance of Romania, manifesting its contribution both to exports and imports. The situation from the table below reflects its development between 2006 and 2009.

**Table no. 1 The contribution of direct investment enterprises in exports**

| Year | Contribution in exports (%) |
|---|---|

| | |
|---|---|
| 2006 | 72,5% |
| 2007 | 70,8% |
| 2008 | 73,0%, |
| 2009 | 69,8%, |

Source: The National Bank of Romania Report

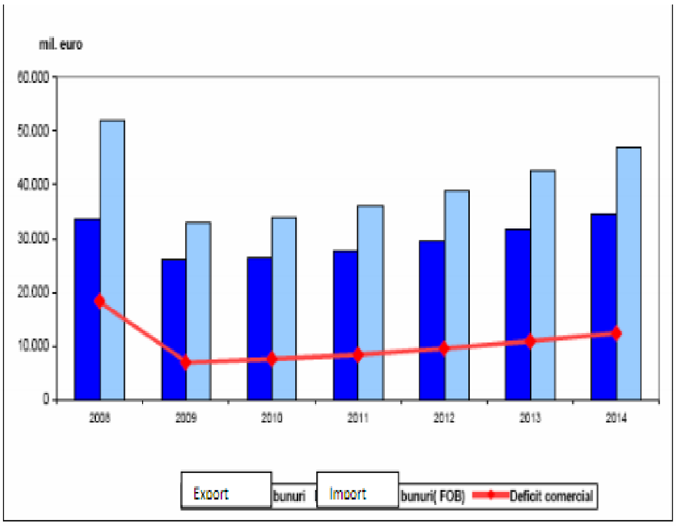
**Table no. 2 Foreign trade of foreign direct investment enterprises on 31st of December, 2009**

| Exports (FOB) | | |
|---|---|---|
| | **mil. euro** | **% in total branch** |
| **Total**, of which: | **19.643** | **69,8** |
| Industry, of which: | 17.264 | 79,3 |
| Manufacturing Industry | 16.440 | 79,7 |
| Trade | 1.827 | 51,7 |
| Other activities | 552 | 19,3 |

Source: The National Bank of Romania

The recovery of the economies of the major trading partners of Romania had a positive impact on the external demand: exports grew steadily quarter after quarter, leading to the annual growth to get back on track with a positive trend. According to the Projections of the National Commission of Prognosis, exports will resume growth in 2011 and will continue to do so:

**Figure no. 1 Forecasts in the evolution of foreign trade in goods 2011-2014**




Source: The National Commission of Prognosis

As expected, ascending trend of exports will reduce the trade deficit percentage in the GDP.

Based on these forecasts and on the evolution of domestic and international business environment, we can admit that there are important opportunities for all exporters to enter different foreign markets, to diversify their customer base and develop by adapting services and products to the needs of various international clients.

The fact remains that there are market opportunitites where the maturity and development of the internal market will create poles of competitiveness and players interested and trained to operate in an international arena. An important role in this regard is also played by the implantation and continuous development measures undertaken by strategic investors, which have to be maintained. In this manner the prerequisites for a continued growth and for exports with a strong basis, not only short term, will be provided.

## 2. FDI and export competitiveness in Romania

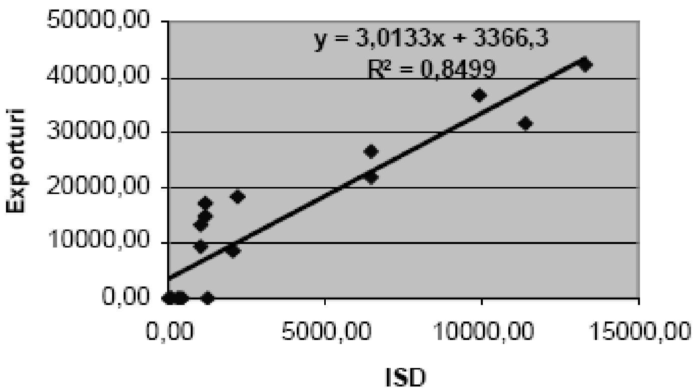
When talking about the competitiveness of a sector or economy, it addresses the concept in relation to foreign competitors, which means analyzing its performances in foreign trade or, in other words, the industry capacity (the companies which represents it) to penetrate foreign markets (increasing exports and foreign direct investment) and to face competition. Only under intense competition businesses are stimulated to streamline their work continuously, to produce goods of high quality and reasonably manage production costs. Success in foreign markets is an important indicator of these performances. Meanwhile, growth of FDI and of exports have a direct effect on productivity growth, therefore economic growth. The increase in exports depends on the factors related directly to the internal environment of business, that are specific to each entity, and national ranking factors such as: natural resources, highly skilled workforce, developed infrastructure, effective state policies, national values, culture, history etc. ( Lipsey, R.,2000) Thus, due to the specificity of each economy, industries or business units, there is a big difference between models that ensure their competitiveness – factors that create the foundation of competitiveness in a country may be insignificant to another.
The tables and charts below analyze the situation in Romania to see if the between 2000 and 2009 changing exports influence change of the FDI and to what extent.

**Table no. 3 Correlation FDI – Exports in Romania**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| FDI(mil. $) | 1056.75 | 1157.93 | 1140.65 | 2196.3 | 6435.59 | 6482.86 | 11366.87 | 9922.83 | 13305.01 | 6792.8 |
| Exports (mil. € ) | 13347 | 14996.7 | 17193.3 | 18284.1 | 21882.8 | 26401.1 | 31553.2 | 36574.1 | 42351.5 | 37300 |

Source: Eurostat, www.ec.europa.eu/eurostat

**Figure no. 2 FDI and Exports in Romania**

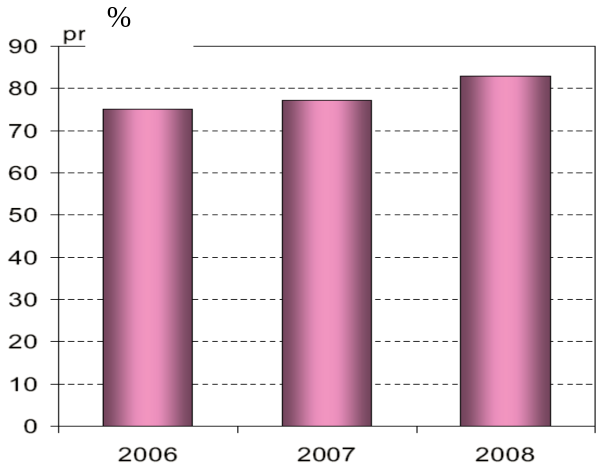


Source: own processing after Table no. 1

In Romania the $R^2$ coefficient is 0,8499, which means that there is a strong correlation and in the same sense, between the exports and the FDI. Between 1998 and 2008 the exports value increased 5 times (from 8468.7 mil € to 42351.5 mil. €) and the FDI registered a significant evolution ( The National Bank of Romania).

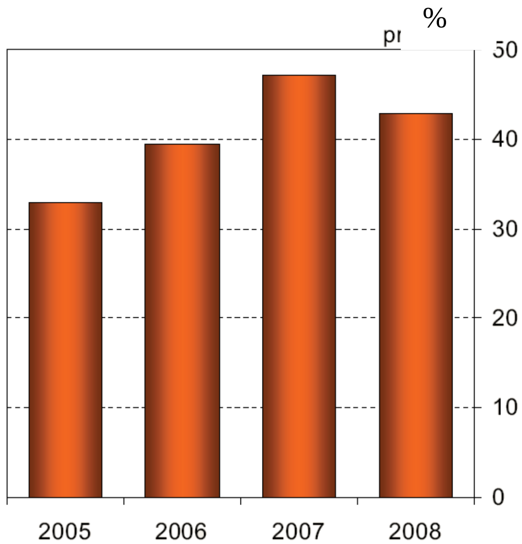
Foreign direct investment is therefore an important factor supporting the Romanian exports.

**Figure no. 3 Exports by manufacturing enterprises with FDI ***




* percentage in total exports
Source: The National Bank of Romania

**Figure no. 4 Greenfield manufacturing investment share in total FDI ****

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Source: The National Bank of Romania

Romania has significant resources of competitiveness, which are insufficiently capitalized in terms of business environment stability, predictability, or physical and business infrastructure, institutional and business efficiency. It is no accident that the World Economic Forum Report, "Global Competitiveness 2009-2010", notes that, despite the fact that Romania was able to go up on the country list, from position 68 to position 64, there are still important areas for a national economy which represent competititve disadvantages (www.capital.ro):

- institutions functioning;

- infrastructure, especially roads;
- the extent and complexity of businesses;
- innovation;
- macroeconomic instability;
- labor market efficiency.

In terms of relevance for export, these drawbacks have a direct impact on the ability to penetrate foreign markets. To this end, it is imperative that in the next period of time Romania should make a better use of its strengths and opportunities, according to this strategy, both act to reduce the threats and risks and mitigating the effects of its weaknesses. Also, it shouldn't be neglected the fact that in any weaknesses and risk points exists an opportunity. So, through well-focused efforts on a flaw, like low innovation capacity, it may become an opportunity to penetrate certain niche markets as you increase the understanding and management ability to exploit a market opportunity.

## Conclusions

The decision to invest in a particular country is based on a thorough analysis of local factors (advantages of the host country), correlated with return needs of the traders and the size (intensity) of the risk associated with operating in an alien environment. The weight of each factor in determining the decision to invest depends on the motivation of the foreign investor. In the current context of global market economy, where every advantage can erode very quickly on its own, these motivations acquire special significance.

Although the market size and the costs of the production factors are the main motivations of the multinational companies to invest in the Central and Eastern Europe, an increasingly importance is given to the economic and political environment (stable), the quality of the government institutions, the legal system (stable and transparent), the level of access to informations and the degree of development of the infrastructure (transport, communications etc.).

In this context, we consider that the long-term development strategy of Romania should focus priority on improving human and technological capabilities, the only viable option to reduce the gaps from the other EU member states. Therefore, the main measures should cover the following issues:

- improving the quality of human resources by increasing investment in education, including training aimed at labor, as building a society based on knowledge is not possible given that education is only a marginal objective;
- stimulate research and development activities, including the creation of partnerships between public and private sector;
- encouraging local initiative by reducing bureaucracy and creating an effective administrative framework;
- encouraging investing firms to develop activities that generate high added value and invest in those activities that enhance the comparative advantages of local resources;
- stimulate the formation of clusters based on related activities, including a more active involvement of local government in solving the problems and the grievances of investors.

In this respect, significant results can be achieved under a more effective EU policy on state aid, including those on investment (foreign and domestic), by directing them priority to the objectives aimed at long-term beneficial effects, such as regional development, the development of innovation activities and C&D, increasing labor training, supporting small and medium enterprises which represent the backbone of the Romanian economy.

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