INCREASING COMPETITIVENESS AND JOBS THROUGH FOREIGN DIRECT INVESTMENTS

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Abstract:
After 3 years of collapse, foreign direct investments (FDI) have reached a minimum level of the last 9 years, in 2011, meaning 1, 94 billion Euros, below the 2003 level. In the first 10 months of 2012, foreign direct investments have reached a level of 1,27 billion Euros, surpassing the similar period last year, as the economic growth was centered around 0,5 %. At this time, foreign direct investments represent one third of the current account deficit. Romania is objectively reliant on foreign capital due to its low degree of internal saving. Investors have chosen the automotive industry in Romania, a sector deemed competitive, due to cheap labor force, large market and substantial state aid. The competitiveness of this sector, as investors appreciate it, also depends on the existing transport infrastructure and the stability of the market. Romania remains attractive for foreign investors if the political environment stabilizes, if inflationist pressure drops, and progresses in the public sector will be recorded. We believe that Romania is reliant on foreign capital because it must finance its current account balance, its budget deficits, and external debts. In perspective, Romania must diminish its independence from foreign capital on the basis of internal savings.

Key words: *economic crisis, economic competitiveness, jobs, foreign direct investments*

1. Introduction

The new reality of the economic crisis is one of diminished flows of foreign direct investments towards countries in Central and Eastern Europe, of costly and difficult financing and of austerity plans applied mostly to the southern states of the European Union and particularly Romania. In Romania, in the first 9 months of 2012, foreign investments have tallied 1,1 billion Euros, an increase of over 30 % from the same period of 2011, and after 10 years, they reached 1,27 billion Euros, keeping a slight advantage compared to last year, although our economic growth was modest. Thus, in September 2012, foreign direct investments have financed the current account deficit with 30,2 %, tallied at 3,7 billion Euros. After 2008, when the volume of investments have reached a level of 9,5 billion Euros, has been followed 3 years of continuous decrease, and in 2011, have reached the minimal of the last 9 years, of 1,9 billion Euros. During that same time, investments in the national economy have been of just 90 million lei in 2008, and then decreased to 55 million lei in 2010, growing back in 2011, but continuously decreasing by 30 % that during the period before the crisis.

2. FDI and competitiveness

The statistics above prove the fact that Romania still requires foreign capital in order to refinance its economy. Foreign direct investments have been and are considered the only way with increased results for solving structural problems and reducing competitiveness gaps which separate the economies of developed countries from developing economies (Cojan,2007). Romania still has an acute need for foreign investments, which would complete and catalyze national capital, in order to support increased competitiveness and the efficency of stocks, assets and capabilities. The expression used above, “objectively”, stands for the lack of national capital, but also of the competitiveness of the Romanian economy. In perspective, Romania must diminish its dependency on outside capital.

Investments must be made by internal savings, by developing the internal capital and insurance markets, by attracting national capital in the banking sector, etc [Matei, 2004].

After 1989 there has not been a constant preocupation for the formation of national capital, considering that economic globalization and economic integration will put an end to the competitiveness gap of the Romanian economy as compared to the economies of other states in Europe. In the mentioned period, banks have not financed capital investments, but have built luxurious headquarters, have given big wages to employees and accumulated unperforming credits (Puiu, 2001). In this context, the austerity measures applied to Romania and the continuous deterioration of the national currency towards the main international currencies make it more and more difficult to recieve access to financing. For the next period, Romania will have to diversify its financing sources.

A first solution would be European funds, because they bring liquidity and create jobs; the only problem is that from the circa 20 billion Euros available in structural and cohesion funds granted to Romania between 2007 – 2013, our country has absorbed roughly 2 billion Euros, in 6 years. For 2012, 2,9 billion Euros have been targeted, of which 900 million Euros have been absorbed. We can observe that accessing European funds can not be considered an only source for financing, but it presents the advantage that the money can be used for investments, thus helping the economy to create jobs and diminishing the pressure on the state budget for such expenses.

Another solution for financing investments would be the state aid schemes. For 2009 – 2013, the Government has authorized a state aid framework with circa 1 Billion Euros, meaning circa 200 million Euros for each year. This scheme is open to companies registered in Romania, including SMEs, which create at least 50 jobs, a total value of investments of 5 million Euros for 5 years after the project is finished. In

2012, another framework was set up, for investments within the manufacturing industry, in energy and IT & C with a budget of 100 million Euros. This framework finances wage costs for at least 200 created for a period of 2 years. The projects financed via this framework cand be submitted in 2013 as well, and implemented until 2018. In lack of experience, Romanian entrepreneurs access these funds with difficulty, whereas multinational corporations accese these funds for free.

We observe that these financing sources: insufficiently absorbed (Matei,2004) European funds, banking credits with oscillating interest rates, state aid framewords, are modest compared to the large number of unemployed personnel and can not stimulate economic growth and create new jobs, thus we must encourage foreign direct investments. Considering the positive examples of the Central European states, as well as our own experience, we must maximize the ratio between positive and negative effects of foreign direct investments, and impose adequate government policies. It has been noted that foreign direct investments are succesful in countries in which foreign capital originates towards sectors which engulf high technology.

Most foreign direct investments are attracted by countries with political and economic stability, countries which have made progresses concerning economic reform, restructuring, including of the financial sector. States in Central and Eastern Europe have attracted foreign investments in different manners, as compared to their progress towards a market economy.

The current evolutions of foreign investments show that legislative liberalization and traditional stimulous: fiscal and financial, have become measures lacking of increased efficency, in attracting significant investment flows, because at this time almost all countries choose such measures (Stancu , 2003).

Decisive factors in attracting a bigger and bigger volume of FDI are at this time given by the economic climate from host countries, the size of the internal market, the level of production costs, utilities costs, acces to natural resources, etc. The only solid arguments of Romania to attract FDI lie in the sheer size of the internal market, due to its circa 20 million consumers and the state aid frameworks granted by the levels of investments and the number of created jobs. The issue of natural resources as a stimulous for attracting FDI remains controversial in Romania, because some investors, in their rush towards obtaining profit at any cost, often linger at the border of lawfullness. The worsening of the investment activity in Romania is bound by the amplification of risk aversion for investors at the international level, thus FDI have strongly decreased in the last few years in Central and Eastern Europe. In a Report of the European Commission concerning the competitiveness of industry in European states, Romania is at the bottom of the table, although it remains attractive for foreign investors, which seek cheap labor and a large market. Although the industry is the sector on which this economic growth is supported, and jobs are creates, its competitiveness is strongly affected by the quality of transport infrastructure and its slow development rhythm.

At this time, highways in Romania are insufficient, railroads are appalling and roads close to plants are unattended for, which affects the profitability of factories, by increasing their transport costs and driving away important investors.

In general, foreign investors whose companies are acknowledged on an international level create their production in several global locations (Europe, Asia, Africa, etc.) in order to take advantage of market opportunities in real time offered by markets. These consider the speed of which the economic situation of a country changes, considering that the world is in constant motion.

One of the dynamic domains in which competitiveness is currently affected is the automotive industry, due to the decrease of the market, with almost 80 %, meaning a decrease from 370.000 cars sold in 2007 to 90.000 cars sold in 2012. Large foreign investors in the field recommend that our country finds its limits for the automotive market, to improve their transport infrastructure, in order to become competitive.

According to statistics, the Car Constructors Association of Romania, registered, in 2011, a income of circa 11,2 billion Euro, increasing by 8 % as compared to 2010, of which 7,7 billion represents parts producers (for example at the Mioveni plant 13.500 people are employed, and they account for 10 % of exports and 3 % of GDP).

In general, foreign investors from the automotive sector choose to produce cars as close as possible to markets from 3 reasons: reducing logistics costs, exchange ratio and trade barriers. We believe that excessive austerity measures, lack of transport infrastructure, unstable markets can not support long term competitiveness of Romania, driving away the main investors attracted by cheap labor.

For the next years an increased competitiveness of Romanian products and services is expected, in order to build them up for the fierce European competition. In this context, Romania ellaborated its Competitiveness strategy for 2012 – 2020, which has bold objectives, and its purpose is to switch from a cheap labor system to a system based on quality infrastructure, in which the potential of well prepared labor will be lead by creative enterprises.

A somewhat new problem which affects Romania`s capacity to muster foreign investors is the educational system, lack of qualified staff for various specializations, as they fail to correspond with their requirements. It is a known fact that FDI represent an important source of jobs for host countries, thus more and more accent is put on their role of creating jobs. Investors concentrate their attention on the implications which international expansion has on production, as well as its consequences, on both developed countries and developing countries. Generating FDI represents a proof of the competitiveness of an economic sector or an economy, but also recieving FDI constitutes an index of the investment process in a certain field.

Exiting from the current crisis must consider FDI, based on competitiveness and superior labor force. The current economic crisis deepens the gap between people, making them face issues such as lack of jobs, increased unemployment in almost all sectors of the economy.

3. FDI and occupation

The impact of FDI on on the occupation of the labor force within the host country depends on: investment array, purpose, economic sector as well as the various regions of the host country, in which the investment takes place.

If the investment is destined towards creating new objectives, the effect on the labor force is becoming concrete in an increase of labor costs. If mergers take place, purchases or just a replacing of the owner of the investments object, makes it possible for jobs to dwindle or remain unchanged.

The labor force occupation phenomenon may be influenced by the character of the branch or the economic sector in which the investment takes place, so if it takes place in intensive labor economic areas such as constructions or agriculture, then it would be possible to create an increase of the occupation of local labor force.

In the situation in which an investment is made into a sector which calls for significant resources such as IT & C, the effects of the investments are materialized in an increase of the quality and efficiency of the labor force, a superior professional preparation and not an increase of the number of employees.

There are situations in which the foreign investor attempts to produce or distribute those products, which are made by local producers, due to the competition between them and may appear negative effects on the local labor force, to generate unemployment, but it will increase the competitiveness of products and services at the local level. In such situations, as the local companies manage to adapt, to assymilate new technologies and qualify their work force, so as to improve their degree of labor occupation at the local level.

If the foreign investor wishes to realize complementary products to local production, by transfer of technology, then the effects on the labor occupation and competitiveness of host country products are positively appreciated. If foreign investors look to restructure the purchased economic objectives, by their own rules, negative effects occur on the degree of occupation of jobs at the local level.

The direct effects of investments on localizing the labor force often reffer to those investments made in certain regions of the country, which would initially register high unemployment, contributing to the territorial balance of the situation of labor occupation on a regional plan.

Statistics show that the number of jobs created by FDI in host countries does not increase with the same ratio of the invested capital flow. FDI, as a part of of international capital, looks for cheap labor and superior qualification in order to increase its competitiveness and thus, profit.

If capital movements are reduced at the international level, there are major imbalances concerning the labor force, because the mobility of the labor force is lower than the mobility of capital.

In conclusion, the globalization of capital is realized in an easier way then the globalization of the labor market, although the two elements influence each other and maintain each other.

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