DE GRUYTER OPEN

DOI 10.1515/vjes-2016-0007

Foreign Direct Investments, Open Source to Increase the Participation of Romania within Global Production Networks

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Abstract

The transactions into the international trade of services, today, represent a major component of the international flows of values. This work aims a brief analyze of the Foreign Direct Investments flows' evolution of the Romanian services economy in terms of volume (as value) and dynamics during the post-crisis years that highlight the Romanian modern economy participation within the global and European production networks level" after 2013 year.

Keywords: *Foreign Direct Investments, Global Production Networks, indicator of participation in the global economy, structural particularities of Romanian trade in services*

JEL Classification: F21, M21

Introduction

The services sector holds about 75% in the community GDP foreign direct investments (FDI) in this sector hold 70% of the FDI flow and 60% of the FDI stocks on the community level. The 2008 crisis influenced Romania's trading performances in the services area and appreciable gaps can be noticed, as far as Romania is concerned, compared to the older European Union (EU) members. In 2013, 5 old EU states were among Top-10 world services exporters (regarding the service exports Great Britain reached the 2nd position ($ 290 billion); Germany, 3rd place ($ 287 billion); France on 4th place ($233 billion); Spain on 7thplace ($144 billion), Holland on the 9th place ($142 billon). Regarding the imports area there is a similar situation with a slightly different Top-10 and Spain no longer appears in this top according to the data provided by World Trade Organization (2014)). Romania also presents significant gaps in relation to the new member states (NMS) of the EU either countries comparable as dimension and potential, such as Poland, or much smaller states (Czech Republic & Hungary) that had the same basis for a start.

The Eurostat data indicate that Romania's gaps compared to these three countries became narrower in 2013 compared to 2012: Poland's services exports are 2.8 times bigger than those of Romania, Czech Republic are 1.6 times bigger and Hungary's 1.5 times bigger and only Poland appears on the list of the main 30 services exporters worldwide, going up from the 30th position in 2012 to the 28th according to WTO, 2013b: 2014a (table 1).

Table 1

Services exports & services balance evolution in some new EU member states between 2008-2013 (in € billion and %)

NMS	Export/ Balance	2008	2009	2010	2011	2012	2013*	Services/goods weight trade* in
Bulgaria	Export	5.4	4.9	5.0	5.4	5.7	5.8	11.8 (58.6)
	Balance	1.3	1.3	1.9	2.3	2.3	2.1	
Czech Republic	Export	14.9	13.9	15.8	16.7	17.2	16.9	10.6 (65.9)
	Balance	3.0	2.8	3.0	2.4	2.0	2.0	
Hungary	Export	13.8	13.3	14.6	15.8	15.8	16.2	14.7 (77.2)
	Balance	1.5	2.0	2.9	3.1	3.4	3.5	
Poland	Export	24.2	20.7	24.7	27.0	29.5	30.2	7.1 (39.7)
	Balance	3.5	3.4	2.3	4.0	4.7	5.3	
Romania	**Export**	**8.8**	**7.1**	**6.6**	**7.3**	**8.4**	**10.8**	**6.6 (36.1)**
	Balance	**0.7**	**-0.3**	**0.4**	**0.3**	**1.1**	**2.7**	
Slovenia	Export	5.0	4.3	4.6	4.8	5.2	5.4	12.5 (61.8)
	Balance	1.4	1.2	1.3	1.5	1.8	2.0	
Slovakia	Export	5.8	4.3	4.4	4.7	5.6	5.6	7.7 (86.3)
	Balance	-0.5	-1.0	-0.7	-0.4	0.3	0.1	

*Average import & export (between brackets indicated the weight of the goods trade in the GDP).

(Source: Authors' calculations based on the Eurostat statistics (2014a))

During the last few years, the weight of the Romanian services flows on the EU internal market decreased and inferior ratios were held also by Slovakia (0.6%), Bulgaria (0.3%) and Slovenia (0.3%) in 2012 year. Certain structural particularities of the Romanian export configuration during 2012 year (WTO, 2013a; Eurostat, 2014b):

- a *transport services very high weight* compared on the global and European average (22*%*) considered to be part of the category of traditional services;
- *a tourism services very low weight* in Romania's total revenue within service exports compared the global average (26%) and also to the European level (15%) when the tourist services balanced of Romania recording economic deficits;
- 54% of the total Romanian exports go to the component *"other services"*.

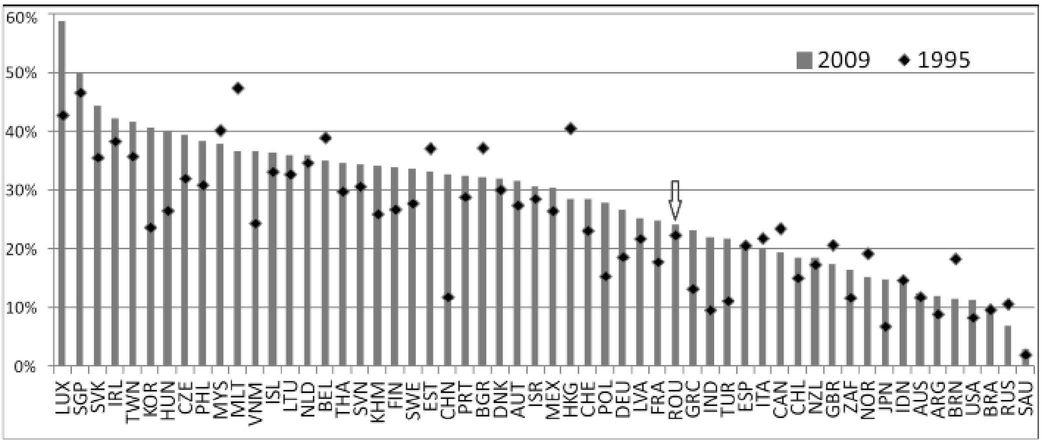
Since 2013 it has a weight similar on the global average much under the European average (63%). As trading performances, there are essential differences between the different categories of services of this component. The IT services recorded the largest surplus (€886 mln.), followed by the advertising, marketing and public survey services (€329 mln.), architecture, engineering and other technical services (€200 mln) and the communications services (€186 mln.). The remarkable expansion of the IT services exports and also the exports of other service categories out of the component “other services" in trade of services is a proof of the dynamic process of relocation in the Romanian economy, even if the conventional data of the payment balance cannot offer an exact image of the real dimension of the services relocated in Romania by the foreign companies.

1. The Romanian participation on the global production networks

The external content ratio in gross exports frequently is an indicator used to illustrate the countries’ engagement into Global Product Networks (GPN), called “*Vertical specialization indicator*” respectively the ratio of external added value in total gross exports**.** Between 1995-2009, the indicator for Romania increased just 3 % mean a modest participation of Romania within GPN and also a slow progress recorded by Romania during the last decennium and a half (chart 1).

Chart 1.

External evolution of the gross exports in the countries selected between 1995-2009 years (%)

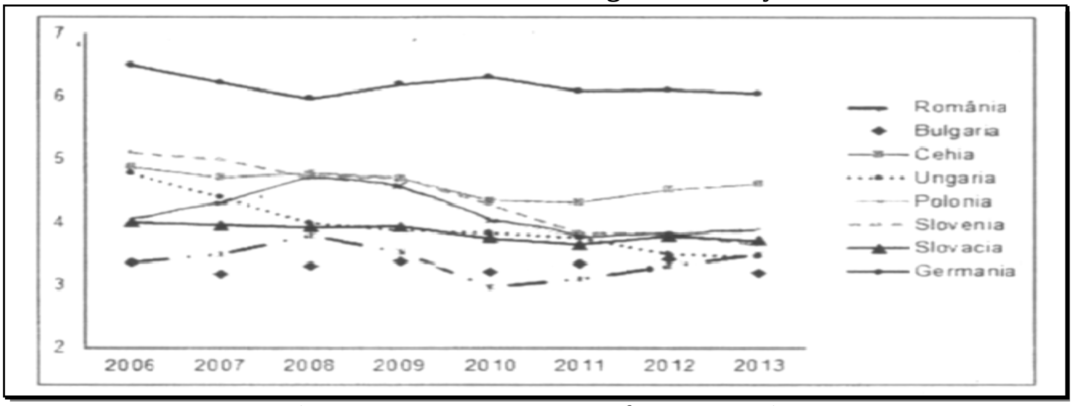


(Source: Graph taken over from OECD (2013 b) based on the data provided By OECD-WTO Trade in Value-Added (TiVA) database)

The industrial processing centers concentrated in Europe situated into CTN influence area conceptualized by the “Enterprise Europe Network” syntagm. Similar specialization models can be found as well in Asia (called “Enterprise Asia”), reflecting especially the Chinese economic ascension and its rapid integration into GPN, especially after became WTO member (2001). Significant changes took place as well in the other areas of the “Enterprise Asia” in 2009 for instance in South Korea (41%) and Japan (15%), and other countries (e.g. India and Turkey) spectacularly doubled the weight of the external component of the value added in their exports. The relatively weak presence of Romania in GPN and the slow progress during the latest years are also confirmed by the indicator “global value chain (GVC) ampleness” elaborated by the World Economic Forum (WEF) relevant for the countries’ involvement in GPN (chart 2) being an important component of “Global Competitiveness Index (GCI)” [Constantinescu & Stefan, 2016: 150].

Graphic 2.

GVC indicator evolution for Romania, Germany and EU new member states during 2006-2013 years



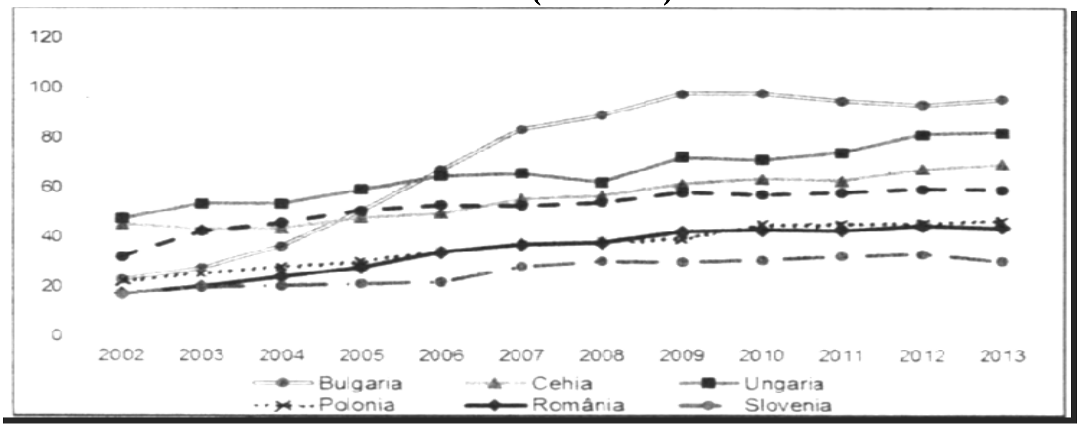
(Source: Constantinescu & Stefan, 2016:148)

1.1. Foreign Direct Investment flow in Romania.

Romania was integrated in GPN predominantly under the control of CTN originary of the EU and over 80% of FDI stock went to the EU-15 investors, just as in the case of the other NMS [Kostecki, 1994: 2].

Chart 3.

FDI stock evolution in Romanian GDP and in some EU new member states between 2003-2012 (€ millions)



(Source: Constantinescu & Stefan, 2016: 149)

The main origin countries of FDI in Romania are: Holland (22% in the total FDI stock in 2012), Austria (with 19%), Germany (with 11%), France (with 9%) and Italy (with 5%), countries holding together 2/3 of Romania's FDI in 2012, a hierarchy remained practically unchanged since 2009 [Constantinescu & Stefan, 2016: 150]. USA held, during the same year, only 3.1% of Romanian FDI stock. The geographic configuration of the foreign capital confirms that, despite the rapid progresses in the domain of ICT which reduced the transaction and coordination costs, technically facilitating the geographic spreading of the different stages of the production processes -, geographic and cultural proximity matters very much in the attraction of the FDI flows. In the FDI stock distribution of our country between 2008-2012 years, the services sector of the Romanian economy continued to hold over 50% of FDI.

This explains why the GPN managed by CTN have a dimension that is rather regional than global and Romania is integrated in intra-EU networks, actually just like the other NMS. In other words, Romania belongs to the “Enterprise Europe” and not to the “Asia Enterprise” or “North America Enterprise” [WEF, 2013].

The weight of the FDI stock into Romanian GDP during 2013 was 43.8% being behind Bulgaria (95.5%), Hungary (82.3%), the Czech Republic (69.7%), Slovakia (59.1%) and Poland (46.4%) and only in front of Slovenia (30.4%).

UNCTAD report in the trade area within added value remarked a strong positive correlation with an ascending trend between the level of the FDI stock attracted also the rates of participation of the countries to the GPN, which for Romania was indicating that FDI constitutes an important opportunity of development by which our country can increase its participation to the GPN.

Conclusion

Out of the principal factors that have made out of Romania a preferred destination for the investors who want to relocate their services because in our country the are :

- relatively low costs of labor force;
- cultural and geographic proximity compared to Western Europe in relation to other world
- Regions;
- relatively well-prepared labor force, especially in the ITC domain;
- relatively good level of knowledge of foreign languages and linguistic acquisitions;
- the existence of university centers able to continually prepare young people – the future
- labor force in the domains within the investors are interested in (services into Information and Communication Technology (ICT) sector,
- financial-accounting domain etc.);
- good infrastructure within the ICT area.

According to the statistical data published by the Romanian National Bank given a € 300 million deficit recorded during the crisis year 2009, the trading balance in trade of services has improved, as the trade with services has increased. The year 2012 marked a moment of turnover in the evolution of the services balance by the recording of a historical surplus, worth € 1.1 billion that in 2013 was €2.6 billion.

This performance is all the more impressive as, in the case of Romania, the services balance traditionally records structural deficits, even since 1990, which have turned into moderate surpluses only during the years that preceded the crisis, culminating with that of the year 2008, worth € 659 million.

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