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## FDI IN ROMANIA: EVOLUTION AND MAIN TYPES OF LARGE FIRMS IN THE MANUFACTURING SECTOR

*Maria Birsan & Anuta Buiga*

**Breakfast Session 1: New frontiers in investment promotion**

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# **FDI in Romania: evolution and main types of large firms in the manufacturing sector**

Maria Birsan and Anuta Buiga

Babes-Bolyai University, Cluj-Napoca, Romania

## **Introduction**

The role of FDI has been examined under various aspects that refer to the impact on home or host countries, the advantages and the costs. We would mention a few more issues resulted from research such as the correlation between FDI and the economic growth (cause or effect), the impact of FDI on modernization of economic structure and exports, on employment, technology and management transfer, the impact on regional/local development, on payment balance, the trade off between FDI and external trade, the impact on exchange rate etc. Successive evaluations were made about the determinants of FDI, and firms' decisions to invest abroad (in a foreign country), *id est* about the factors of attractiveness or business climate.

Besides the above-mentioned issues, when talking about the CEECs as host economies, FDI has played an important role in the privatization of the state sector and, consequently, in promoting the market economy and competition in these countries. FDI also contributed significantly to the increased level of competition in the emerging markets.

Why do foreign investors choose to invest in the new emerging markets? Which are their main determinants that explain the FDI flows towards a country or a group of countries, and which are the motives for the firms' decisions to take the risk of investing in a certain country?

The literature usually categorizes foreign investors according to their reasons for investment as follows:

- new markets - market seekers (usually the investors are internal/domestic market oriented)
- cheap labour or/ and natural resources (efficiency seekers)
- export oriented investments.

Our opinion is that all investors - be they domestic or foreign - are primarily efficiency seekers. What makes the difference is the way of reaching this target, meaning through expanded market or through low cost of factors. Countries in Central and Eastern Europe generally offer attractive conditions, especially comparative lower labour costs, along with educated and skilled labour force; they compete for attracting more FDI. Moreover, the fiscal regime has become very encouraging in many of these countries. Consequently, important foreign investors preferred to re-localize completely or partly or to open branches in these new areas. The ways of penetrating these economies are as follows:

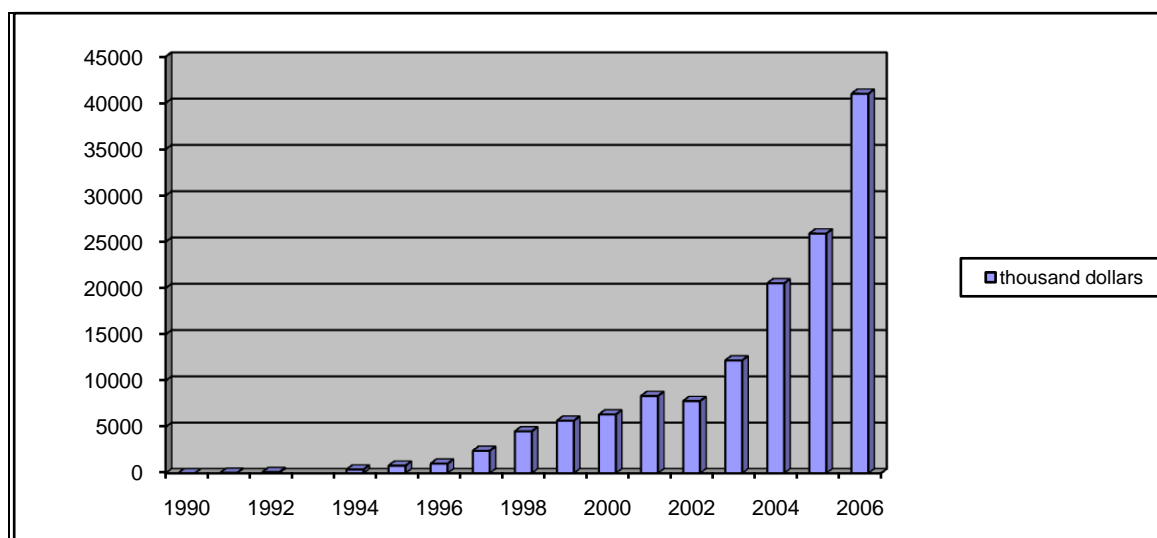
- Full new investment (green field investment)
- As participant in the privatization process (brown field investment)
- By mergers and acquisitions of already existing private or state owned companies.

Romania is one of the group of CEECs, which was lagging behind concerning the attractiveness of FDI for many years. The situation has changed and one may notice a positive trend to this respect. Therefore, one may talk about bad practices which explain the situation during the first years of transition, and good practices which explain the new pattern of evolution.

Our paper is structured as follows: in the first part we present and comment the pattern of FDI evolution in Romania... The second part is devoted to the main FDI determinants and motives for firms' decision to invest. In order to depict the main types of large FDI in the manufacturing sector in Romania, the third part analyzes the results obtained by applying the clustering method<sup>1</sup>. The final part consists of our conclusions.

### 1.Evolution of FDI in Romania between 1990-2006

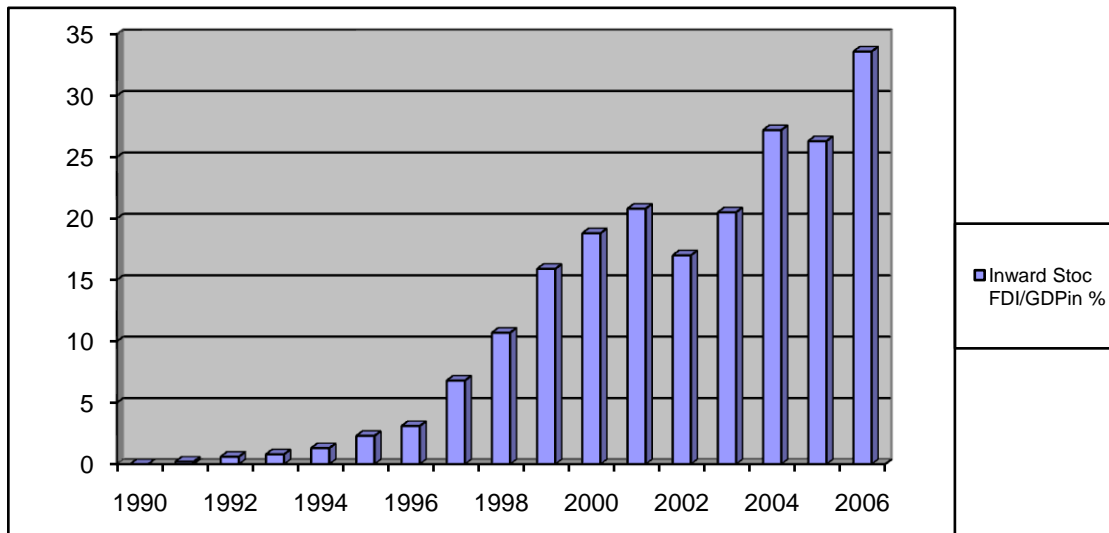
Dimension and evolution of FDI are presented in the following graphs:



Graph 1: FDI stock 1990-2006

Source of data: UNCTAD, World Investment Report, 2006

<sup>1</sup> We have been conducting a two year research project which aim was to evaluate the impact of large FDI on the employment in the manufacturing sector in Romania. This paper is based on the part of research results.



Graph 2: Inward Stock FDI/GDP, in %  
 Source of data: UNCTAD, World Investment Report, 2006

The graphs presented above clearly show a very low amount of FDI during the first period, namely between 1990 and 1998. This happened because the economic reform, including the privatization of the state sector, started later than in the other CEECs and has progressed slowly and hesitatingly. The specificity of the privatization process (mass privatization) was not favorable to FDI participation, and there was no strategy towards attracting FDI; on the contrary, the slogan was ‘we do not sell our country’. Mainly trial investment entered the country. We may say that at that time, Romania missed the initially favorable conditions due to the lack of political will to reform the economy.

Starting with 1998, the situation has changed and the stock of FDI and the stock of FDI/GDP started to ascend, even though evolution was a fluctuating one. Large scale privatizations and positive changes in the business climate were among the determinants of this new evolution trend. Certainly, the progress in fulfilling the criteria of adhesion to the EU has substantially contributed to the increase of the investors’ confidence. We may even notice several peak years of FDI amount, which are related to the privatization of several huge state owned companies<sup>2</sup>.

Among the large investment one may find not only brown field ones, which participated in the privatization process, but green field investment as well. Since the opportunities of investing by privatization process has become more limited in time, the policy measures have to be oriented towards attracting more green-field investment.

## 2.Determinants and motives for investing

Several published synthesis on theoretical and empirical researches (Andersen and Hainaut, 1998, Lipsey, 2002, Blönigen, April 2005), underlined that FDI is generally attracted by several factors such as:

<sup>2</sup> To mention : Sidex (metallurgy), in 2001; BCR, the largest state bank, in 2004; National Petroleum Corporation – Petrom – has been bought by Austrian OMV; state owned companies of utilities: Electrica Banat and Electrica Dobrogea, bought by the Italian group Enel etc. According to Romanian Agency for Foreign Investment, and important foreign investors are operating in the Romanian economy now: automotive (Renault, France; INDUSTRIEWERK SCHAEFFLER INA-INGENIEURDIENST GMBH, Germany; CONTINENTAL AKTIENGESELLSCHAFT; COMPAGNIE FINANCIERE MICHELIN, Suisse; PIRELLI TYRE HOLLAND N.V., Holland); telecommunications (UPC ROMANIA HOLDING B.V., Holland; Group

market size and its potential development, factor costs, especially labor cost, but also human capital (education and skills), trade openness, infrastructure reform, price liberalization, fiscal policy, institutional development, technological absorption capacity etc.

The combination of all these factors explains why MNCs decide to invest in a certain country, in a certain area. Predominance of one or the other of the basic factors and motives in the firms' decision give a certain profile to the respective investment. Thus, the literature has turned to the already known findings regarding the main types of foreign firms in the host countries: horizontal investment (market seeking), and vertical investment (efficiency seeking). The simultaneous presence of positive determinant factors would explain the pattern but also the size of FDI flow in a certain country. All in all, conditions of investment differ from one country to another.

The importance of one or other factor changes in time. For instance, during the first years of transition in the CEECs, political stability and macroeconomic stabilization, including institutional development, were premises of interest for foreign investors. Along with the progress in political and economic transformations, and especially with the progress in fulfilling the criteria of adhesion to the EU, the comparative advantages of investing in these countries – low labor cost but educated labor force (see, Masso, Varblane, and Vahter, May 2007), relative high growth rate and growing market potential have become the most important determinant factors that directed the FDI flows towards this area. Re-locations were also registered quite frequently, especially in the production field of labor intensive goods. It is worth mentioning that certain advantages are temporary in character (labor cost, resource availability), and may diminish in time<sup>3</sup>.

Since the firm competitive position depends more and more on the innovation and technical capacity of absorption, on human capital (education and skills), and on the existence of conditions for competitive clusters and innovatory activities. (Dunning, 2007a, 2007b), new factors of attractiveness have to be promoted.

There are two levels of approaching the FDI determinants: the factors that constitute the potential attractiveness for a country, and the real motives for firms' decisions to invest. There is no border line between the two approaches - determinants and motives - they are in fact interconnected. The country attractiveness is explored using correlation – regression models or gravity models where the stock of FDI as dependent variables are explained based on quantitative measurable explicative variables, while the methodology for the evaluation of the firms' motives to invest is based on survey and the firms' perception on the respective determinants. We may say that they complement each other, but are not always similar in content and interpretation. Since not all determinants are measurable, and not all correlations can be captured, the quantitative measures are to be complemented by qualitative interpretations.

In the case of Romania, the matter of the explanatory variables of the foreign companies' decisions to invest was less studied. This kind of research has to be mainly based on the information obtained from the firms.

Our research was based on questionnaires which have been sent to a number of 250 companies. The questionnaire refers, among other things, to the importance granted by the companies to the motives for

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<sup>3</sup> Recent evaluations published under the title « Advantages in low cost countries », in The 2007 A.T. *Kearney Global Services Location IndexTM*, pdf document, came to the conclusions that the low cost advantage will diminish during the next 20 years, as demand for skilled workers increases in offshore locations around the globe. The key to maintaining and enhancing long-term competitiveness lies in skills development, infrastructure investment and the regulatory environment— not in attempts to control wages

investing in Romania<sup>4</sup>. We selected the large FDI according to the following criteria: the firm should be in the manufacturing sector (15-36 NACE), it should have >250 employees, >50% foreign contribution to capital, the company should have been in activity during the period 2000-2005. The list of large FDI in manufacturing has been provided by the Register of Commerce, and completed with our own findings during the research<sup>5</sup>. Given the restrictive criteria, only around 250 companies fulfilled all these criteria, and were addressed the questionnaires. Out of this total number of firms, we received 134 answers, which is a good rate of responses.

Since the companies are generally reluctant to answer to this kind of investigation, we finally accepted a random sample of answers that has not strictly followed the shares of manufacture subsectors within the manufacturing sector as a whole. Therefore, the results might have been influenced by this research limit. Moreover, our research was based mainly on the firms' answers to our questionnaire, namely on the firm perception concerning certain aspects (e.g. importance of competition law, fiscal regime, cost or market perspective etc.), and only partially on real figures at firm-level (e.g. evolution of number of employees, the percentage of training in the total number of employees, the percentage of sales on the domestic and foreign market etc.). As in any researches of this type, the results might be perverted by the accuracy of the answers.

In order to reveal the types of large FDI in the manufacturing sector, we applied cluster analysis. The aim was to identify the groups which consist of similar firms (according to certain criteria), but the firms should be different from one group to another. Grouping criteria are those known in the literature as important for the FDI profile (cost level or *efficiency seeking*, and prospects of the market in Romania or *market seeking*). We based our estimation on the firms' answers regarding the importance of these criteria for the decision to invest in Romania. Since the manufacturing sector comprises not only capital/technological intensive activities, but also labor intensive activities, especially in some subsectors, we expect FDI in this sector to be of both types *efficiency seeking*, and *market seeking* as well, but in various proportions. The proportion of each type is important, since it expresses two different ways of the manufacturing sector's integration into the world economy through FDI flows. The aim of this part of our research was to check whether or not the FDI types in the manufacturing sector fit the "classical" types mentioned in the literature, and to learn some lessons from the findings.

### **3.Types of large FDI in the Romanian manufacturing sector**

For grouping the firms, two main classification methods may be used: non-hierarchical (non-numerical) and hierarchical (numerical). Since the variables in our classification are not of numerical nature (we used codification – from 1, which is the most important, to 5, the least important), the non-hierarchical classification being appropriate in this case. To group the firms, firstly we have chosen the two characteristics of similarity that should provide the group profile in our panel, and they are the cost level and the perspectives of the market in Romania (for details concerning the method, see Everitt, Landau, Leese, 2001). The results are presented in the following table.

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<sup>4</sup> The reasons for investing in the Romanian manufacturing sector as included in the questionnaire are: cost level, Access to natural resources, Labour force quality, Prospect on the market in Romania, Prospect of EU adhesion\*, Low competition, Fiscal regime, Law regarding the foreign investment, Business environment attractiveness, Cultural closeness: (contacts, friends, language. etc.). The company was asked to opt among 4 answers (the most important, important, less important, the least important) for each motive.

<sup>5</sup> We are very grateful to our students who enthusiastically contributed to our empirical research and checked the list of companies, corrected and even completed it. They have also presented very interesting case studies as seminar work at the European Business Environment course module.

**Table 1. Cluster Number of Cases: Average Linkage (Between Groups)**

|         |  | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|--|-----------|---------|---------------|--------------------|
| Valid   | 1 (cost level=efficiency seeking )                     | 57        | 42.5    | 44.9          | 44.9               |
|         | 2 (prospects of the market in Romania:=market seeking) | 70        | 52.2    | 55.1          | 100.0              |
|         | Total  | 127       | 94.8    | 100.0         |                    |
| Missing | System   | 7         | 5.2     |               |                    |
| Total   |  | 134       | 100.0   |               |                    |

Source: Own calculation; Grouping in the two clusters was based on the Average linkage (Between Groups)

**Table 2. ANOVA\***

|                                   |                | Sum of Squares | df  | Mean Square | F       | Sig. |
|-----------------------------------|----------------|----------------|-----|-------------|---------|------|
| Cost level                        | Between Groups | 13.238         | 1   | 13.238      | 24.704  | .000 |
|                                   | Within Groups  | 66.982         | 125 | .536        |         |      |
|                                   | Total          | 80.220         | 126 |             |         |      |
| Prospect on the market in Romania | Between Groups | 177.466        | 1   | 177.466     | 287.306 | .000 |
|                                   | Within Groups  | 77.211         | 125 | .618        |         |      |
|                                   | Total          | 254.677        | 126 |             |         |      |

\*ANalysis Of VAriance between groups

Our clustering has been validated by ANOVA, which showed the homogeneity of these groups (F variable registered high values, and Sig<0,05). The highest value of the variable F was registered in the case of group 2 (prospect of the market in Romania).

We may notice that the majority of large FDI in our panel is of market seeking type, *id est* of horizontal integration type<sup>6</sup>, which fits the findings in other transition/ transforming economies, and it also expresses the main way of economic integration through FDI-mainly used by companies which produce the same goods as in the home-country. The two motivations that define the clusters' profile have to be also supported by the market orientation *id est* the group of companies which came only for minimizing the cost (vertical integration) have to be more external market oriented, while the group which came because of the good prospects of the market in Romania have to be more domestic market oriented. The picture resulted from processing the answers to our questionnaires are as follows:

**Table 3. Domestic or/and external market orientation of production on each group**

*Mean*

| Average Linkage (Between Groups) | Which is the destination of your production? (%): Domestic market | Which is the destination of your production? (%): External market |
|----------------------------------|---|---|
| 1 (cost)                         | 9.3682  | 90.6318   |
| 2 (market)                       | 38.6107   | 61.3893   |
| Total                            | 25.4044   | 74.5956   |

<sup>6</sup> Details about horizontal and vertical integration one may find in Kazuhiko Y., A. Tomohara (May 2007), *A Decomposition of Factors Influencing Horizontal and Vertical FDI: A Separate Analysis*, Working Paper, Series Vol. 2007-15

The results contradict the previous supposition. It is so obvious that the interest of large FDI in the manufacturing sector, for both groups, is mainly oriented towards the external market (exports), but more accentuated in the case of group 1 (efficiency seeking group). It means that the FDI mainly came to Romania to process goods or parts of goods with low cost, and to sell them in the originating country<sup>7</sup> or in the other EU countries or outside of the EU markets. For group 2, the external market is also more important than the domestic market for the moment, but the companies in this group also show an important interest for the domestic market as well (see the importance granted to the prospects of the market in Romania).

We supposed that the firm main motivations for investing in the Romanian manufacturing sector also might have something to do with the way of investing: from the ground (green-field), and by privatisation (brown-field). Our findings on this aspect are as in the table below.

**Table 4. Type of investment / group** (% within Average Linkage (Between Groups))

| Cluster                    | Type of investment/each group |             | Total  |
|----------------------------|-------------------------------|-------------|--------|
|                            | green-field                   | brown-field |        |
| 1 (cost level)             | 61.8%                         | 38.2%       | 100.0% |
| 2 (prospect of the market) | 50.0%                         | 50.0%       | 100.0% |
| Total                      | 55.2%                         | 44.8%       | 100.0% |

More than 2/3 of the efficiency seeking FDI is of green-field type, while the market seeking group is equally constituted of green-field type and brown field-type. The logic of this situation is clear: the companies which delocalize the processing of parts of their products have to start from the beginning with the processing of components in the host country, while the companies which seek the future market development may transfer the whole processing units or buy the existing similar units in the host country (privatisation).

The groups being validated (ANOVA), one might analyze the importance of other investment reasons for each group. In order to compare the results, we used the median, but also the mean.

**Table 5. Mean Report**

| Average Linkage (Between Groups) | Cost level  | Access to natural resources | Labor force quality | Prospect on the market in Romania | Prospect of EU adhesion* |
|----------------------------------|-------------|-----------------------------|---------------------|-----------------------------------|--------------------------|
| 1                                | <b>1.35</b> | 3.46                        | <b>2.18</b>         | 4.11                              | 3.44                     |
| 2                                | <b>2.00</b> | 3.37                        | <b>1.91</b>         | <b>1.73</b>                       | <b>2.34</b>              |
| Total                            | 1.71        | 3.41                        | 2.03                | 2.80                              | 2.82                     |

<sup>7</sup> This kind of FDI was known even before the 90s<sup>7</sup>, and it is called *lohn, id est* export of good processing, and was mostly present in labor intensive goods sectors such as textile.

| Average Linkage (Between Groups) | Low competition | Fiscal regime | Law regarding the foreign investment | Business environment attractiveness | Cultural closeness (contacts, friends, language etc.) |
|----------------------------------|-----------------|---------------|--------------------------------------|-------------------------------------|---|
| 1                                | 3.77            | 3.04          | 2.78                                 | 3.13                                | 3.79  |
| 2                                | 2.99            | 3.03          | 3.00                                 | <b>2.56</b>                         | 3.64  |
| Total                            | 3.33            | 3.03          | 2.90                                 | 2.81                                | 3.70  |

\* Questionnaires were sent to companies before the adhesion of Romania to the EU

\*\* Questionnaires were sent to companies before the new flat tax regime was implemented

The calculations led to the same findings: for cluster 1 (efficiency seeking FDI), the cost is the highest reason of the presence in Romania, while the prospect on the Romanian market is not important; cluster 2 (market seeking FDI) is more “balanced” regarding the motivations - the perspective on the market in Romania is on the first place, but the cost is also very important.

Besides the low cost and the prospects of the market in Romania, there are also other motives which may have influenced the decision of investing. Thus, the quality of labour force is, naturally, of rather high importance regardless the group. As it has already been said, prospects of the market in Romania, and the full opening of the EU market along with the adhesion – are of high importance for the second group. The same group grants importance to the Business environment. All the other investment reasons seem to be of low importance (the lowest being *Cultural closeness*).

Since the findings are not only of theoretical importance, but of a practical one as well, we have to point out that low cost is one of the temporary attractiveness reasons. To maintain the FDI interest, other reasons of potential attractiveness have to be better promoted.

According to existing opinions, the efficiency seeking FDI belong to the sectors which process more complex goods, while the market seeking FDI produce more simple, homogenous goods. We tried to verify the validation of this opinion in our case, and our findings regarding the sector participation in each group are shown in the following table.

**Table 6. Activity sector \* Average Linkage (Between Groups) Crosstabulation**

| Activity sector   | Average Linkage (Between Groups) |        | Total  |
|---|----------------------------------|--------|--------|
|   | 1                                | 2      | 1      |
| Clothes, Knitwear and Leather                           | 42.1%                            | 32.9%  | 37.0%  |
| Electrical Machinery and Appliances                     | 12.3%                            | 8.6%   | 10.2%  |
| Food products and Beverages                             | 3.5%                             | 20.0%  | 12.6%  |
| Machinery and Equipment                                 | 5.3%                             | 7.1%   | 6.3%   |
| Metal and Non-metal Products                            | 10.5%                            | 18.6%  | 15.0%  |
| Pulp, Paper and Paper products, Publishing and Printing | 1.8%                             | 1.4%   | 1.6%   |
| Transport, Trailers, Other Transport Equipment          | 8.8%                             | 4.3%   | 6.3%   |
| Waste recovering  | 0                                | 1.4%   | .8%    |
| Wood and Furniture                                      | 15.8%                            | 5.7%   | 10.2%  |
| Total   | 100.0%                           | 100.0% | 100.0% |

We may notice the high share of the *Clothes, knitwear and leather* sector in the total panel, and in each of the two groups of firms, followed by the *Wood and Furniture* sector in the case of the first group

(efficiency seeking<sup>8</sup>), and by the *Food products and Beverages* sector in the case of the second group (market seeking). Therefore, the sector structure on groups does not look as one would have expected to be according to the opinions in the literature. Sectors which prevail in both groups are of horizontal integration type. Still, the presence of the sector *Electrical Machinery and Appliances*, which is on the third place in the group of efficiency seeking companies might be seen as a starting point of a more vertical integration type of large FDI in the manufacturing sector.

We have also assumed that the sector activity orientation in each group may related to the way of investing. Thus, we cross-tabulated three variables: type of investment, activity sub-sectors, the two groups of FDI, and we have obtained the following picture:

**Table 7. Activity sector \* Average Linkage (Between Groups) \* Types of investment<sup>9</sup> Crosstabulation**

| Type of investment | Activity sector   | Average Linkage (Between Groups) |        | Total  |
|--------------------|---|----------------------------------|--------|--------|
|                    |   | 1                                | 2      | 1      |
| green-field        | Clothes, Knitwear and Leather                           | 58.8%                            | 45.7%  | 52.2%  |
|                    | Electrical Machinery and Appliances                     | 17.6%                            | 8.6%   | 13.0%  |
|                    | Food products and Beverages                             |                                  | 14.3%  | 7.2%   |
|                    | Machinery and Equipment                                 |                                  | 5.7%   | 2.9%   |
|                    | Metal and Non-metal Products                            | 5.9%                             | 11.4%  | 8.7%   |
|                    | Pulp, Paper and Paper products, Publishing and Printing |                                  | 2.9%   | 1.4%   |
|                    | Transport, Trailers, Other Transport Equipment          | 2.9%                             | 5.7%   | 4.3%   |
|                    | Waste recovering  |                                  | 2.9%   | 1.4%   |
|                    | Wood and Furniture                                      | 14.7%                            | 2.9%   | 8.7%   |
|                    | Total   | 100.0%                           | 100.0% | 100.0% |
| brown-field        | Activity sector   |                                  |        |        |
|                    | Clothes, Knitwear and Leather                           | 19.0%                            | 20.0%  | 19.6%  |
|                    | Electrical Machinery and Appliances                     | 4.8%                             | 8.6%   | 7.1%   |
|                    | Food products and Beverages                             | 9.5%                             | 25.7%  | 19.6%  |
|                    | Machinery and Equipment                                 | 14.3%                            | 8.6%   | 10.7%  |
|                    | Metal and Non-metal Product                             | 14.3%                            | 25.7%  | 21.4%  |
|                    | Pulp, Paper and Paper products, Publishing and Printing |                                  |        | 1.8%   |
| brown-field        | Transport, Trailers, Other Transport Equip              | 19.0%                            | 2.9%   | 8.9%   |
|                    | Wood and Furniture                                      | 14.3%                            | 8.6%   | 10.7%  |
|                    | Total   | 100.0%                           | 100.0% | 100.0% |

<sup>8</sup> Given the sector, the access to natural resource –wood –, at relative low cost, may also be one of the main reasons of investing in this sector

<sup>9</sup> We used the notions of green-field and brown -field FDI according to the mode of entry as presented in many dedicated papers. Greenfield investment creates an entirely new organization, new production facilities (from 'the ground'), in the respective foreign country; Brownfield FDI means the purchase (acquisition) entirely or partially of existing organization, which requires sometimes extended restructuring not only from the technical point of view, but employment restructuring as well. The prevail of one or another of the two types of entry provides a certain indication about the evolution of privatisation process in a transition economy. We have grouped the firms in our survey based on the questionnaire answers regarding the way of entry.

We may notice that the most labor intensive subsector *Clothes, Knitwear and Leather* is on the first place for green-field investments, which also has the highest share for group 1- efficiency seeking FDI. These findings contradict the general picture of efficiency seeking FDI, which was supposed to refer to the vertical integration type of production. Green-field FDI in Electrical machinery is by far of lower importance than the clothes sector. Market seeking FDI have entered by privatisation in the subsectors of *Food products and Beverages, Metal and Non-metal Products, and Clothes, Knitwear and Leather*.

## **Conclusions**

The results of our research led to the conclusion that in the case of the manufacturing sector in Romania and for large FDI we notice the two well known types of firms - efficiency seeking, and market seeking. At the first evaluation, market seeking prevails in the total FDI. The validity of the groups was tested by ANOVA.

Still, when we deepen into the analysis, and take into consideration the present market orientation of the two groups, the external market is the most important factor not only for efficiency seeking firms, but for market seeking as well. This means that the low labour cost is also important for the second group. The low cost appears to be the real motive for investing in this sector for both groups, the domestic market being a complementary reason.

These findings are enforced by including the two reasons among the other investing reasons at firm-level. Besides the cost (and the market), labour force quality appears equal as important for the two groups. But, the personnel structure is mainly based on medium qualification, and still relatively high shares of low qualification labour force.

Within the manufacturing sector, one sub-sector activity is placed at the top for both groups - *Clothes, Knitwear and Leather*, and this may explain the importance of the cost motive. It is about investing in labor intensive sub-sectors, which have become too costly in the home country. The Romanian market is seen as an attraction only for the future.

Vertical integration by efficiency seeking FDI is very weak, and we notice one single subsector - Electrical Machinery and Appliances -, which is of more technological intensive type, and which is having a certain importance in the list.

If we try to reveal the meaning of these results by following the theory on FDI motivations and to define the type of large investment who choose to invest in the manufacturing sector in Romania, we have to notice that the main investment reason - the low cost level – does not fit the sectors that are generally considered as important for vertical FDI.

Our findings are based on data and information for the period of time 2000-2005. Romania was lagging behind concerning the FDI amount and types. The whole picture may change with increased FDI flows, especially after the adhesion to the EU.

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