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GLOBALIZATION EFFECTS ON SOCIETY. CASE STUDY: THE DYNAMICS OF FOREIGN DIRECT INVESTMENT IN POST-COMMUNIST ROMANIA

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Abstract. *Globalization is a reality of the contemporary world, with manifestations and effects connected to all levels of human activities: economic, political, social, cultural, scientific and ecological. The suspension of customs barrier, the emerge of multinational companies, the competition on foreign and domestic markets, the importance of the resources and the way they are consumed have become causes and effects of the globalization. This study is meant to be an overall assessment of its effectts in a post-communist Romanian society. A more detalied analysis focuses on a trends and spatial features of foreign direct investment (FDI) seen mainly as a tool of the economic globalization. The foreign investment dynamics in Romania registered a positive trend after the communist fall. This is due to the massive flow of foreign investments from E.U. and also the economic performanced made by our country.*

Keywords: *globalization; foreign investment; economical rise; trade;*

It has been talking more and more about globalization, opinions being both pro and contra. Globalization is a phenomenon which in historical time, on different places, showed in different forms, depending on the conditions and possibilities of the age. By globalization there is a feed back between different civilization and culture to promote a new international order, which it turns to ensure stability, sustainable development, security and peace.

Globalization is a term more and more used, having different perception and meanings, this being the key word in contemporary economy. Globalization is a term used to identify a new global phenomenon, merging the consumer market, factors of production, labor, technology, capital and also natural capital.

This paper highlights the effects induced by globalization on society, as well as the situation of foreign direct investment (FDI) in Romania, since 1990, a more detailed analysis being realized for the period 2003-2016.

The process of globalization is characterized by weakening the role of state in a numbers of sectors of economic and life: computer science, transport, ecological services and population movements.

The main international civil workers for this phenomenon are World Bank and the International Monetary Fund, as well as financiar institutions, and the World Trade Organization (Bran, Ildiko, 2009). The World Bank is the one which offers annually more than 15 billion dollars to its customers, being the largest source of funding for development.

The International Monetary Fund defines globalization such as ,,the increase in the economic iterdependence of countries around the world by increasing the volume and variety of transactions in goods and services across borders, the more freely and faster the flows of international capital but also a wider diffusion" (IMF,2009), while the World Bank understands globalization ,,the freedom and the capacity of individuals and firms to initiate voluntary economic transactions with residents of other countries".

In the current stage of globalization, the role of governments is to ensure that their own economy doesn't become subservient. The emphasis is on the competitiveness of national firms, external and internal market. The opening of markets, however, makes resistance through customs barriers.

Globalization has the characteristics of a geographical distribution, an obvious spatial dimension, because it is achieved within human society. Major corporations have invaded the planet, and instant international financial flows make the world economy no longer possible to constrain within a state's borders.

National economies were ,,forced'' to open under the pressure of the powerful multinational companies. Driven by favorable conditions for low-cost production in less developed economy, these ,,giants'' opened offices and productions units in different regions, limitless between the borders of one state.

As a complex process, globalization presents several sides, highlighted by three main dimensions. The economic dimension considers important elements such as increased trade and direct investment, globalization of financial markets, integrated transnational production.

The political dimension refers to the fact that current problems can only be solved at on the international or global level and that is why European integration is seen as a successful response to the challenges of globalization. An undeniable aspect of the cultural dimension is that Hollywood production can be viewed all over the world, leading to an Americanization of the world culture, regional and local cultures being kept, not being forced to disappear for this reason.

Globalization can have both positive and negative effects. On the whole, developing economies are vulnerable. Their opening to world trade can be both an outstanding success and a failure of the same size. (Bran, Ildiko, 2009)

Trade liberalization and the reduction of market regulations are associated with the globalization process and should lead to the improvement on the contrary should be highlighted economy of countries.

The process of globalization must not be overestimated, and risks and contradictions, globalization being also a process of redistribution of economic power and of widening social gaps and differences across the globe. In fact, failures in achieving economic progress in most countries of the world are a failure of the contemporary world, of efforts made by specialized international institutions as well. Increasing trade leads to worsening of environmental problems, and environmental protection slows down free trade.

Globalization is a complex phenomenon, which is why there are many reasons for this: the Internet (technology), transport costs and speed, the end of the Cold War, global issues (climate, migration), liberalization.

Globalization presents various aspects that affect the world in different ways and on multiple plans. On an industrial scale, there are emerging markets around the world and wider access to a range of foreign products for consumers and companies. Financially - the emergence of global financial markets brings better access to external financing for borrowers.

As far as the economic plan is concerned, the achievement of a common global market is based on the free trade of goods and capital. On a political level, globalization has its footprint in creating a global government governing relations between governments and guaranteeing the rights stemming from economic and social globalization. Ecologically, global environmental challenges such as climate change, water and air pollution, overfishing and the spread of invasive species can be observed, which could be solved through international cooperation.

Many researchers appreciate that the process of globalization implies a number of advantages; however, there are views that contradict the benefits of this phenomenon that it considers to be a source of instability and turbulence. These theories that highlight the negative features of globalization make the loss of social control and accentuation of social polarization due to phenomenon. (Buzducea, 2009)

A disadvantage would be that poor countries suffer: although globalization encourages free trade between countries, there are negative consequences because some countries try to save their national markets. The main product exported by the poorer countries is usually the agricultural product. Larger countries often subsidize farmers (such as the EU Common Agricultural Policy), which reduces the market price for poor agricultural crops.

Considered to be in favor of reducing inequalities between countries, trade and capital movements in fact cause real inequalities and, as a result, strong social tensions. (Guillchon, 2003)

Another aspect of globalization would be the increasing of children's labour. For example, a country facing rising labour demands makes children work, and this can be dangerous, and it can also include trafficking in children, children in bondage or forced labour.

The current world economy is dominated by what many authors call the corporate phenomenon. The basis for the development and the expansion of transnational companies is foreign capital investment. Investments may be direct (investment control) or portfolio (allow for participation in the decision-making process, but do not allow for control).

A powerful tool of globalization (of the economic one in particular, but with side effects on other dimensions) is represented by transnational firms, having as an instrument foreign direct investment.

Foreign direct investment (FDI) is an important element in the development of the economy of any country and its functioning on market economy principles, contributing to the economic growth of both investment and recipient countries. FDI contributes to GDP growth, gross fixed capital formation and balance of payments.

According to annual reports of the National Bank of Romania distinguished by the contribution of the foreign capital inflows to the foreign direct investment enterprises, there are four major types of FDI: greenfield (establishment by or jointly with foreign investors); mergers and acquisitions (full or partial takeover of foreign investors by businesses); business development (increase of foreign capital holdings in foreign direct investment enterprises); business restructuring (financing by foreign investors by direct capital injection of direct foreign direct investment enterprises with a view to making them more profitable).

Foreign investment is focused on developed countries where efficiency in decision-taking, stable and performing economic environment, proximity to capital and financial markets, high-performance infrastructure, all-inclusive labour force, high-value purchasing market, investment success. To developing countries, FDI is geared to the sphere of influence (US to Asia and Latin America, Europe to Africa, etc.).

The United States attracted most FDI in 2016, followed by the UK and China. Members of the European Union have also been well represented by the UK, the Netherlands and Germany (figure 1).

Over 90% of FDI flows to developed countries originate in other developed countries. FDI has increased in all three economic sectors. The major one has gained in importance, reflecting the global trend to invest in oil, mining, and other activities related to natural resource. An important development of FDI has also been recorded in the automotive and transport equipment sector. Services -especially the telecommunications industry and financial services - have also attracted massive FDI.

for foreign capital after the opening of the economy in the early '90. (Horobet, Popovici, 2017)

In recent years, Romania has constantly evolved, having an economy based on

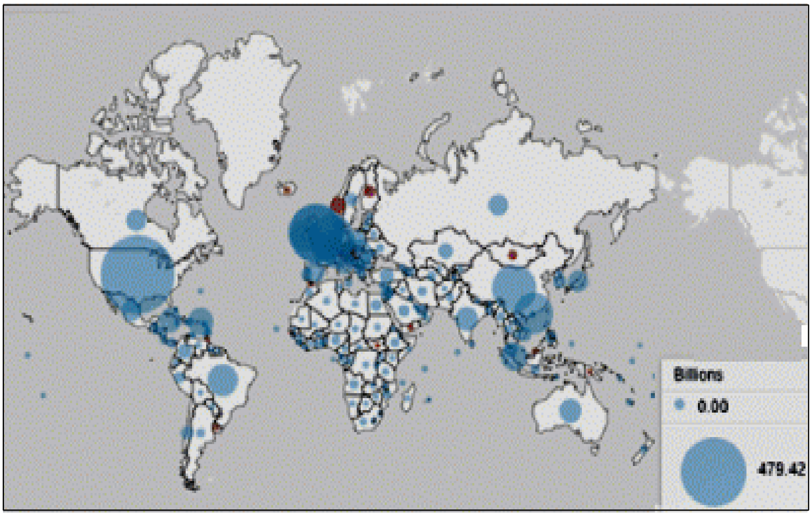

Fig. 1. Foreign direct investment, net inputs in 2016 (USD)
Source of processed data: The World Bank (2018)

Increasing the degree of globalization of economies has led to significant changes in FDI financial transactions.

With a strategic geographical position, a large market and low labor costs, Romania has a consistent set of attractive factors for FDI, able to turn it into a priority destination foreign investment.

From an economic point of view, FDI is predominantly oriented towards industry in the year of 2016, accounting for 44.2% (figure 3) a low share compared to the one recorded in 2003, of 51% (figure 2).

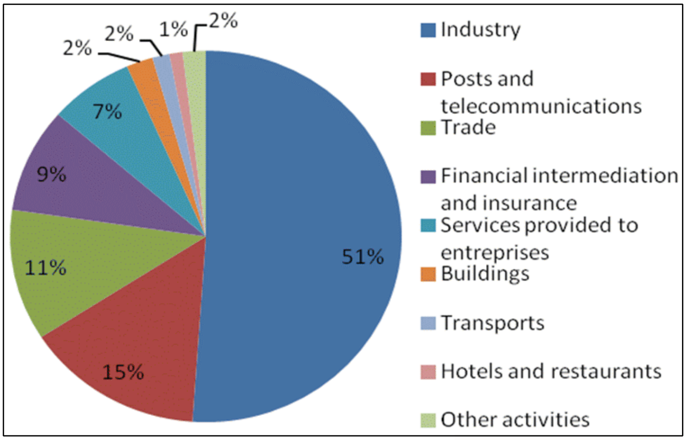

Fig. 2 The distribution of FDI at the level of the main economic activities in Romania (2003)
Source of processed data: The National Bank of Romania (2018)

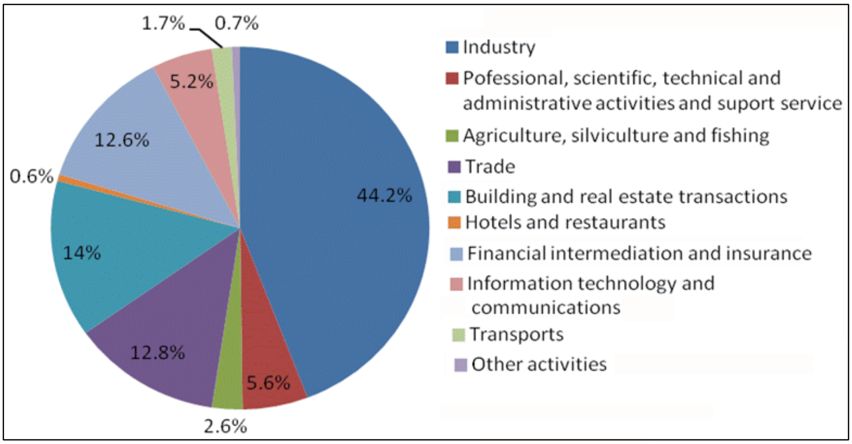

Fig. 3. The distribution of FDI at the level of the main economic activities in Romania (2016)

Source of processed data: The National Bank of Romania (2018)

Other sectors that significantly attracted FDI in 2016 include construction and real estate transactions (14%), trade (12.8%), financial intermediation and insurance (12.6%). These services account for a cumulative share of 39.4% of total FDI. They offer the possibility to achieve rapid and consistent profits based on speculative activities. Agriculture accounted for only 2.6% of total FDI in 2016 as it is not an economic sector of interest to foreign investors. Construction has seen a significant increase, from 2% in 2003 to 14% in 2016. Trade also rose 1.8% between 2003 and 2016.

In Romania, foreign investments are high in 2016, the most attractive region being Bucharest-Ilfov (60%), followed by Center region (9%), West region (8%). The high volume of FDI in the Bucharest-Ilfov region is due to the attractive infrastructure and business environment. The North-East Region has a low share in all three analyzed years (about 2%) due to low infrastructure quality, which isolates the region from the link with the rest of the EU and accordingly from activities involving long-distance transport (figure 4).

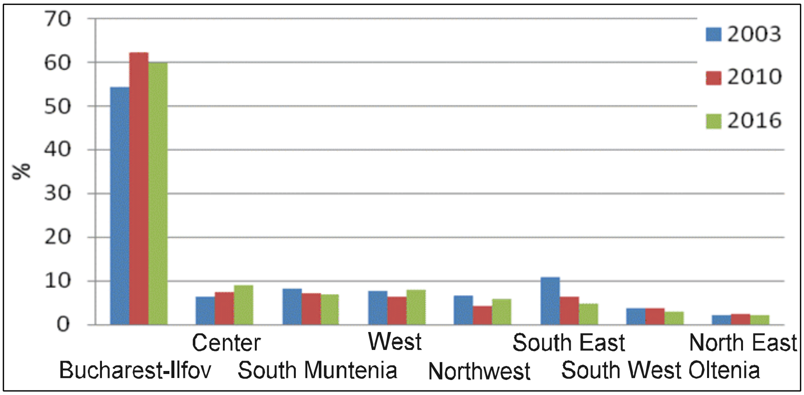

Fig. 4 The dynamics of the balance of FDI at the level of the development regions in Romania (2003-2016)

Source of processed data: The National Bank of Romania (2018)

The South-Mountenia, North-West and South-East regions are in a way close in terms of the share of total FDI, detaching themselves as growth poles with economic and financial performance superior to other regions. However, they are at a significant distance from the Bucharest-Ilfov region in terms of indicators, this fact reinforcing the finding of important regional differences in Romania. The Center Region is the only one to register an increase in the period 2003-2016.

At a county level, the largest FDI is registered in Timis, Prahova, Ilfov and Brasov, due to the high degree of development, and the smallest are recorded in Teleorman, Caras-Severin, Gorj, Botosani, Braila, Vrancea, Vaslui (figure 5). Concerned about Romania is the low level of FDI inflows and in the period up to 2016.

Throughout the analyzed period, 2003-2016, there is a continuous increase of the foreign direct investment balance, but since 2008, when the economic and financial crisis has also been felt on the Romanian economy, we can observe a balance of foreign direct investment cumulated with very high increases (figure 7).

Depending on the origin of the foreign capital, one can notice their uneven distribution in several EU countries with which Romania is linked by traditional economic relations. According to the FDI balance, the top 4 countries are occupied by the following countries: the Netherlands (24.3%), Germany (13.2%), Austria (11.9%), and France (6.9%). EU member states hold over 80% of total FDI in Romania, which reveals a high economic dependence of the country on their economic evolution. The interest of these countries in investment projects in Romania is explained by the advantages of the mother companies: the competitiveness of the company, the insurance and creation of new jobs, the increase in turnover.

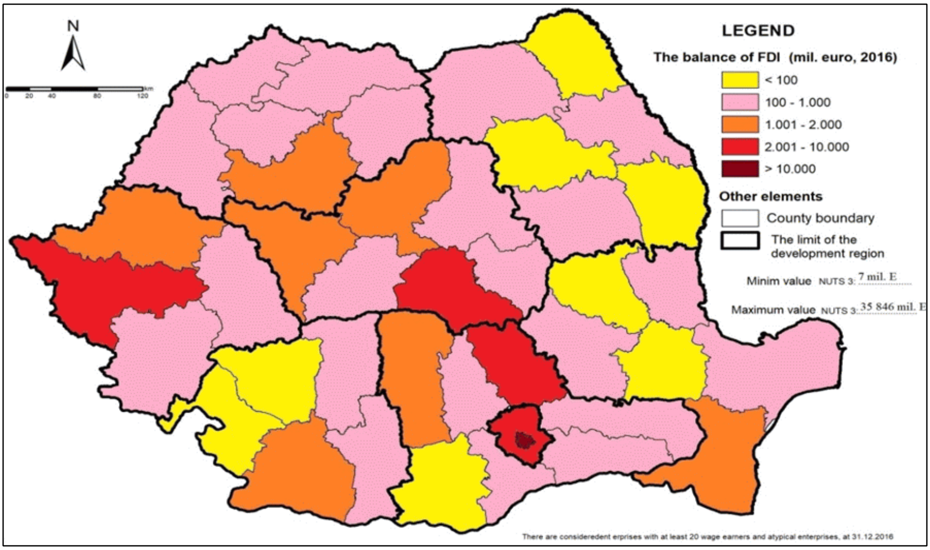

Fig.5. Distribution of the balance at the county level (2016)
Source of processed data: The National Bank of Romania (2018)

The evolution of FDI flows in the period 2003-2016, shown in Figure 6, shows a high volatility of these financial flows for Romania. As a general trend, FDI inflows in Romania increased significantly over the period 2003-2006, but in 2007 FDI inflows declined significantly. By far, however, the weakest year for FDI since 2008 for Romania was 2011 where FDI flows were more than 5 times lower than those in 2008.

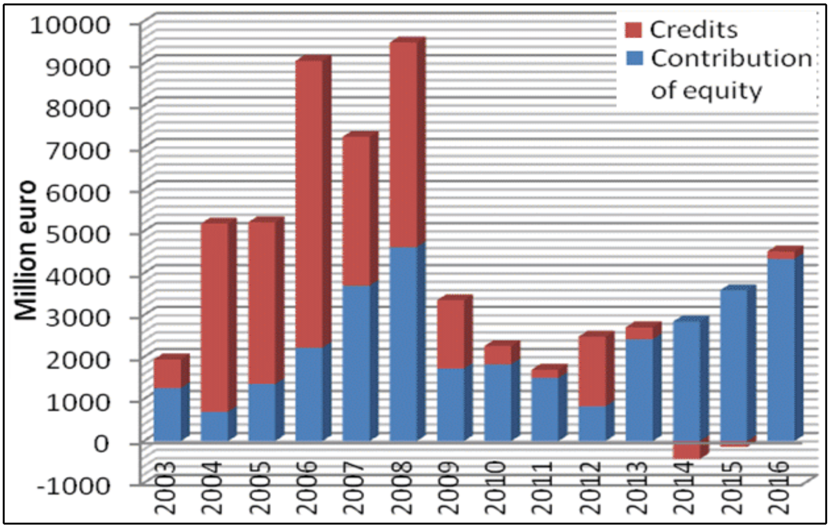

Fig. 6. Flow dynamics of FDI during between 2003 and 2016 (million euro)
Source of processed data: The National Bank of Romania (2018)

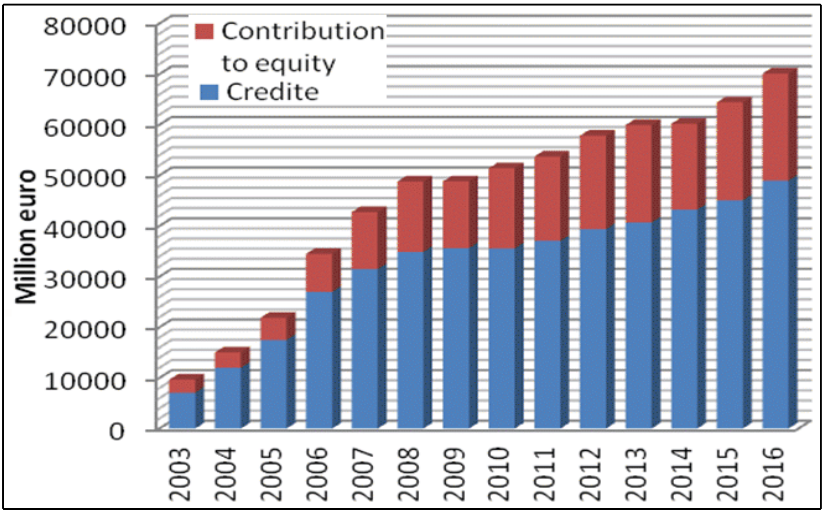

Fig. 7. The dynamics of the balance between 2003 and 2016 (million euro)
Source of processed data: The National Bank of Romania (2018)

A negative effect of FDI is that foreign investors transfer polluting activities to countries with less attractive regulations, less developed. When the disaster occurs in developing countries, the international community responds through solidarity and material and human support, while disasters occurring in developed countries have the negative effects that are felt in the world economy, being materialized in major financial losses.

Oltenia is among the regions with the smallest foreign direct investments in Romania, accounting for only 3% of the total FDI. Here, FDI is carried out in agriculture due to the advantages offered by this region: a lowland area with low fertile, soils suitable for the development of cereal crops.

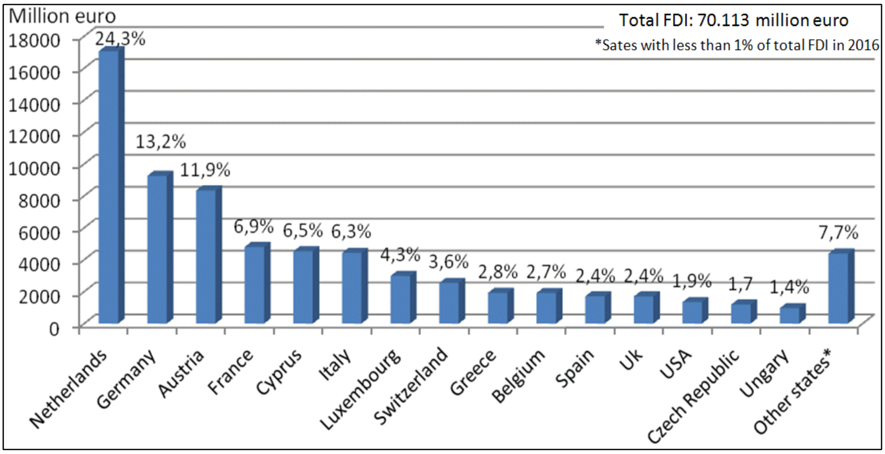

Fig. 8 FDI in Romania in 2016. Distribution by country of origin
Source of processed data: The National Bank of Romania (2018)

In conclusion, FDI has contributed to Romania's economic growth and development over the last years, through its contribution to technological development, export growth, know-how imports. For the efficient development of FDI, *it is important to bear in mind that national policies are those that contribute to increasing efficiency, competitiveness and sustainability in Romania, so that their development should take into account the overall impact of FDI on the national economy and refer to the creation and consolidation of a knowledge-based society, the development of a sustainable economy, the promotion of an industry and the direction of more investments in the promotion of Romanian brands, the increase of social responsibility (Mehedintu*, 2003).

The advantages of the FDI host country are: economic growth, job creation, optimization of resource allocation.

Another positive effect of foreign capital inflows is the addition of domestic resources, contributing to reducing the gap between domestic economies and investment needs and increasing gross fixed capital formation.

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