

FDIs IN SPAIN AFTER ITS EU ACCESSION. SPANISH INVESTMENTS IN ROMANIA AND HOW CAN BE USED SPANISH EXPERIENCE FOR ROMANIA'S DEVELOPMENT

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ABSTRACT: *It is an open question to what extent the accession countries will be able to benefit from an increase in the quality of FDI that they receive due to EU membership. The point here is that the benefits that accrued from EU membership to the countries that joined earlier are substantially attenuated for later entrants to the EU because of globalization. This paper will discuss the similarities between the economic structures of those two countries, the Spanish investments in Romania and how the Spanish experience after its EU accession could be used for Romania after 2007 when it acceded to EU, too.*

KEY WORDS: *FDI; EU accession; Spain; Romania; investment policy.*

JEL CLASSIFICATION: *F21, F23, G01, G24, G38.*

1. INTRODUCTION. LITERATURE REVIEW ABOUT EU ENLARGEMENT ANF FDIs.

It is an open question to what extent the accession countries will be able to benefit from an increase in the quality of FDI that they receive due to EU membership. TNCs may divest their operations in response to better location advantages elsewhere in the EU (as Spain and Portugal are experiencing as their low-cost advantages are eroded), or reduce the intensity of operations by lowering the level of competence and/or scope of their subsidiary, and shifting from truncated replicas to single activity affiliates. There may also be a redistribution effect. That is to say, sectors that were dominated by domestic capital are transferred to foreign ownership, particularly where

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domestic capitalists have failed to improve their competitive advantages to compete effectively with foreign firms. Indeed, in many of the CEE countries, the share of foreign ownership in total capital stock is already typically much higher than in older EU member states, although with considerable variation across sectors.

Many of the less economically developed, more “peripheral” economies of the EU-15, such as Greece, Ireland, Portugal and Spain (referred to here as the ‘cohesion’ countries) followed this approach, and, partly as a result of their success, these policies have been pursued much more explicitly by the new member states (NMS) and those wishing to join, a large number of both groups being located in central and eastern Europe (CEE). However, our aim is to discuss the broader aspects of the role of FDI in economic development for Romania, using the experience of a European developed country, namely Spain. This paper will discuss the similarities between the economic structures and experiences of those two countries, the Spanish investments in Romania and how the Spanish experience after its EU accession could be used for Romania after 2007 when it acceded to EU, too.

Membership of the EU has two important implications with regard to FDI. First, it allows countries that have small domestic markets to expand their de facto market size. Firms located in the EU have access to the entire EU. However, as the number of countries in the EU increases, this advantage is currently shared by 27 member countries and even more if one includes countries that have preferential access to the single market through various lesser forms of trade agreement. Thus, this advantage has considerably less value to the accession countries than it had for the cohesion countries, and this is exacerbated by the fact that domestic firms in many of the CEE countries have little experience in dealing with competition in a market economy which further attenuates the benefits that derive from the competition effect. Second, membership suggests political, economic and legal stability. Although the absence of efficient institutions can retard the efficient accumulation and transfer of knowledge, EU accession countries are not competing with the least developed countries for FDI (Ioneci, Mandreci, 2010).

As such, EU membership per se does not necessarily lead to an increase in the quality or the quantity of FDI that a country receives, and this is best illustrated by the case of Greece. In 1980, inward FDI stock per capita was \$470 (all figures in current prices) compared with \$315 and \$137 for Portugal and Spain respectively. By 2007, FDI stock per capita in Greece had grown to only \$4,740, compared with \$10,750 and \$12,138 for Portugal and Spain respectively. To take just one example from the NMS for comparison, Hungary’s FDI per capita in 2007 was already more than double that of Greece (\$9,711). A substantial part of these flows took place before Hungary became an EU member in 2004.

The point here is that the benefits that accrued from EU membership to the countries that joined earlier are substantially attenuated for later entrants to the EU because of globalization. First, because global financial, political and economic liberalization, which forms a large part of the globalization process, has “levelled the playing field” in lowering the risk associated with trade and investment in most parts of the world (Narula, 2009). With growing technological convergence, increasing homogeneity of consumption patterns and improved communication and transportation

facilities, these factors have reduced the costs associated with supplying EU markets from East Asia or the Americas. As such, many of the new entrants to the EU are faced with increased competition for FDI not just from other European countries but also from other parts of the world, most notably Asia. The total flows of FDI are not fixed, and thus, in principle, countries need not compete for FDI.

The empirical evidence on the effects of EU membership and the shift from the cohesion countries to the NMS by and large confirms our skeptical view of FDI flows to the cohesion and accession countries. Ex ante studies on the effects of EU membership on the shift of FDI, not unexpectedly, have found a wide range of effects. These studies are mainly simulations based on theoretical models: As early as the mid-1990s, Pfaffermayr et al. (2001) and Galego et al. (2004) examined various aspects of the shift of FDI from the periphery to the CEE countries. Other papers (Gorg and Greenaway, 2002) examined the FDI potential of the CEE countries upon accession. Altomonte and Guagliano (2003) go beyond the cohesion countries and examine the potential of the CEE countries compared to the Mediterranean region, which can be considered as a competitor location. Clausing and Dorobantu (2005) found significant effects of key European Union announcements regarding the accession process. Garmel et al. (2008), in a growth model, predict that three quarters of capital in the NMS will ultimately be acquired by investors from the “core” member states in the long run. Ex post studies have generally found some, but no dramatic shift of FDI.

This increased competition for FDI challenges both the cohesion countries and the CEE countries. Many (but not all) of these countries have tried to compete globally on the basis of two primary location advantages: low labour costs and EU membership. As we have discussed above, EU membership is not as much of an advantage in a liberalized, stable and shrinking world where distance does not form as much of a barrier to trade and investment as it once did. For similar reasons, the cost advantage of these countries has also been dissipated in many cases, particularly where productivity gains in China and other Asian economies have grown (Kalotay, 2004) partly as a result of their superior technological infrastructure. Spain and Portugal have experienced some displacement of FDI or lost sequential FDI because they have not been able to develop location advantages in knowledge- and capital-intensive activities to compensate for the rising labour costs that have eroded their industrial base in low-value-adding activities, a development that also has been observed in CEE countries, where already some production activities have been shifted “further east”.

In the light of the evidence discussed in this section, in the case of Ireland, Portugal and Spain, we expect to see some level of displacement to the new members in industries where: 1) low-cost labour remains the primary reason for location and where the TNC subsidiary has not expanded its original low value-adding activities towards knowledge-intensive areas in which the domestic economy has a competitive advantage; 2) the TNC subsidiary is not embedded through important linkages to other firms in the host economy; 3) the sunk costs of an FDI in the host economy are low; 4) productivity gains have overcome disadvantages associated with rising labour costs; 5) skill levels are not particularly high and thus employees are easy to substitute, since in these cases (tacit) know-how hardly limits the slicing of the value-chain.

In other words, the most obvious long-term solution for cohesion countries is to improve their location advantages in other areas, towards more science-based technological sectors. Ireland has succeeded in doing so with its focus on the ICT sectors, although Portugal and Spain have so far failed to make significant moves towards more science-based sectors. Disinvestments in the cohesion countries are, of course, not happening suddenly, because although they do rely on cheap factor inputs, they are also capital-intensive.

It is not immediately obvious that when TNCs begin to disinvest from the cohesion countries, thus will automatically result in increased investments in the accession countries in the same industries. In the automobile industry, for instance, the efficiency of a new Greenfield plant tends to require a relatively large minimum efficiency scale. TNCs are therefore reluctant to start out in greenfield sites, which is a further deterrent to setting up new investments in the CEE countries. Except where strong domestic sectors and specialized knowledge-based clusters exist - whether public or private - the CEE countries are unlikely to receive major inflows of FDI that are intended to supply the EU as a single market.

The lesson here for most peripheral countries is very much the same as one that development policy experts have been arguing for the developing countries: dependence on static and generic location advantages - whether drawing from the development of institutions, infrastructure, stability, or low-cost labour - is necessarily short-term and short-sighted.

The last two decades of increasing liberalization, falling transportation and communication costs, and investment in knowledge-based activities in East Asia has meant that the peripheral EU countries are no longer as attractive (although it should be noted that the lack of strong IPR enforcement in some Asian countries does provide a small opportunity). The comparative advantage of these countries needs to shift away from low value-adding activities to higher value-adding activities, which are necessarily science-based.

Section 2 focuses on Spanish investment climate to attract FDIs for development and section 3 looks on the Spanish FDIs in Romania and realize a comparison between Spain and Romania regarding FDIs. Section 4 concludes the paper.

2. INVESTMENT CLIMATE AND FOREIGN DIRECT INVESTMENTS DETERMINANTS IN SPAIN

Since emerging from its relative international isolation during the Franco era, Spain has steadily become a more active and important player in international affairs. In recent years, the Spanish Government has pursued policies aimed at making Spain more attractive to investors, creating a welcoming environment for foreign investment. It has low labour and transport costs and the introduction of the single market has eliminated exchange rate fluctuations and reduced overall transaction costs.

The Spanish economy benefited considerably from Spain's accession to the European Union, and has since undergone a remarkable transformation from a

relatively poor, agrarian economy to the eighth largest industrialised economy of the OECD.

Over the past five years the Spanish economy has experienced one of the strongest rates of GDP growth in the European Union, averaging around four per cent per annum, driven by strong domestic demand and productive changes. However, in 2001-2002 the economy experienced a period of slower growth as a result of the general economic slowdown in Europe and the United States, and weaker domestic demand. Still the growth was the fastest in the EU. Since the 1980s, inflation has fallen fairly steadily. One of Spain's main economic challenges has been high unemployment. In 1996, the unemployment rate was around 24 per cent. A steady reduction since that time has been attributed to labour market reform. The rate of unemployment for 2002, at 11.3 per cent, represents a small increase from 2001, attributed to the general economic slow-down.

In 1999, the Spanish Government undertook to reduce the budget deficit and deliver balanced budget. With program of privatisation and a reduction in public expenditure, this target was achieved in 2001 the first time in 25 years. However, this positive state of affairs was diminished by the general economic slow-down in the following year, with a negative impact on the Government's 2002 fiscal position. That said, the deterioration was modest in comparison to other EU countries.

Since its election in 1996, the Popular Party Government has focused on making the Spanish economy more internationally competitive through a series of financial incentives and legal reforms. Key elements have included cutbacks in government expenditure, income tax cuts, labour market reforms, liberalisation of the telecommunications sector, and large-scale privatisation of state enterprises. The privatisation program, begun in 1985, has significantly reduced state ownership of Spanish industry, public services, utilities, and transport. The program is nearly complete, with only few smaller companies remaining to be privatised. Recent reforms have concentrated on the privatisation of the telecommunications company (Telefonica), energy groups (Endesa and Repsol), and the Iberia airline.

Flowing from the legislative steps taken in 1994, 1997 and 2001, the labour market has become more flexible. The labour contract system has been simplified and more flexible forms of hiring have been introduced.

Once heavily reliant on agriculture, the Spanish economy is now dominated by services, which account for between 60-65 per cent of all employment and total GDP. Tourism is particularly important, as Spain is the world's second largest tourist destination after France, with approximately 50 million tourists and another 20 million people on business, family and other visits per annum. Spain's second most important sector (in terms of GDP and employment) is the industrial and manufacturing sector, at around 20 per cent. The agricultural sector, once an integral part of the Spanish economy, now accounts for only about 3 per cent of GDP and 6.5 per cent of employment. Fishing remains a major primary industry, and Spain has one of the world's largest fishing fleets. Spain is also relatively rich in mineral deposits, but coal reserves are of poor quality, and almost all domestic oil demand is met by imports.

Spain has undergone a process of rapid modernisation over the last ten years, investing in an extensive renewal of its transport, telecommunications and banking

infrastructure. All main economic centres now have good transport links. In the last 20 years, the highway network has greatly expanded and is now extensive. Recent liberalisation has brought the quality and density of Spanish telecommunications infrastructure in line with that of the European Union. The banking sector is strong with two banks, Banco Santander Central Hispano (BSCH) and Banco Bilbao Vizcaya Argentaria (BBVA), dominating the finance sector. Despite the high level of concentration, well-developed network of regional, mutual savings banks ensures that the retail banking sector remains competitive. Spain's international economic profile has grown appreciably in recent years, becoming the world's 16th largest exporter. Reflecting Spain's geographic and economic position in Europe and its historic and cultural ties with Latin America, Spain's principle trading partners during this period were the European Union (in particular France, Germany, Italy and the United Kingdom), the major Latin American countries, and the United States. Nearly 40 per cent of Spanish exports are high value-added industrial products.

Spain exports among other products automobiles, tourism, power generation equipment, fruits, foodstuffs, minerals, metals, electrical machinery, petroleum and chemical products, clothing, footwear, textiles, which are approximately 20% of GDP. Its major markets are France, Germany, Italy, United Kingdom, United States, Portugal. Spain exports are one of the big foundations of its economy and the government knows it, mostly because Spain has a trade deficit and without these exports the economy would be weaker. In order to promote exports earnings Spain has within its Ministerio de Economía, Economy Ministry, the ICEX, which is the Spanish Institute of Exterior Commerce. This institute offers its assistance to Spanish enterprises in order to promote their exports and their implantations in foreign countries. In order to do so, the Institute designs and put into work programs of promotion and investment and spread information about the current Spanish supply and the foreign markets demand. Spain exported to major markets such as other countries of the EU (70.63%) and U.S. (4.4%). The imports were in petroleum, oilseeds, aircraft, grains, chemicals, machinery, transportation equipment, fish among others.

There are several aspects that promote a favorable climate for business. These are, among others, education, employment, investment, and economic and business expansion. The average in number of years that a student would take to graduate from an undergraduate program in Spain is high, mainly because students have had the tendency to think they won't find a job due to the high rates of unemployment. To start fixing this issue the Government changed the educational system and decided to offer more specialized programs in any different area. However, most institutions, mainly public, offer a lot of theory but few practices in their academic programs, which makes education less efficient. Only people who attend private institutions are more likely to find a well-paid job after they finish their studies, mainly because these institutions include professional internships as a part of their programs. However, in Spain local business development agencies have increased in number, where they help and assist you if you want to start your own business. Also Spanish economy and companies are expanding both nationally and overseas. Banks are enlarging their variety of loans and

credits so entrepreneurs have more choices and opportunities to start their own business.

Spain began to open its economy with a privatization program that significantly reduced the size of the government. This would dramatically reduce Spain's public sector borrowing requirement and help trim inflation. This trend was continued throughout the 1990s with liberalization of the banking (such as the case of Argentaria), energy, and telecommunications sectors and deregulation of the labor market. However, there are several controversies with this impulse of privatizing because it may benefit the Spanish' economy nowadays but it can cause a large deficit in the public sector in the next future since the profits of the privatizations are not spent on supporting the public sector as it was done at the beginning of the privatization program. It could bring the end of the public health care system among others public services, which would end up being sold to private institutions as well.

Non-residents operating in Spain through permanent establishments must comply with tax procedures normally applicable to Spanish CT payers, except in respect of transfers of profits made to head offices that are subject to the branch profits tax of 25%. All businesses are also subject to VAT (value added tax). VAT taxable operations include the supply of goods, the provision of services and imports.

Spain is seeking to attract new FDI to modernise its economy. In the 1990's it introduced new legislation to make the country more attractive to foreign investors. The main features of the FDI regime include the following:

- *Entry and establishment:* Spain has been gradually liberalising previous restrictions on FDI and, after Decree 664/1999, most FDI is allowed freely into the country and subject only to ex-post notification. However, investments from tax havens or directly related to national security require prior notification. There are also industry specific restrictions on FDI in air transport, radio and television, gambling, mining, hydrocarbons, pharmaceuticals, telecommunications and private security. The law allows the government to suspend the liberalisation rules for certain investments for reasons of public order, security or public health.
- *Ownership and control:* Restrictions on acquisitions of local companies have been liberalised. National stock market regulations require investors to make a formal take-over bid to acquire more than 50 per cent in a Spanish firm. The government sometimes keeps -- and uses -- a golden share in companies after privatisation.
- *Operational conditions:* Performance requirements are not used as a condition for eligibility of incentives. In general, public and private firms are given equal treatment with respect to local access to markets, credit, licenses and supplies.
- *Exchange controls:* Since 1992, Spain has eliminated remaining foreign exchange and capital controls. Remittances of profits, debt service, capital gains, royalties from intellectual property and capital repatriation are allowed freely at market rates.
- *Incentives:* A range of incentives are provided at the central, regional and municipal levels for a variety of purposes, including environmental protection, research and development programmes, quality management programmes, job

creation and cultural activities. They are provided to Spanish and foreign firms, without discrimination. The types of incentives available include financial subsidies, exemption from certain taxes, preferential access to official credit, customs exemptions, real state grants, credit guarantees, infrastructure facilities and professional training and qualification.

Spain also signs many multilateral, regional and bilateral treaties with many countries around the world in order to promote its trade and investments. During 2010, five bilateral investment treaties were concluded, out of which one was a re-negotiation (the BIT between Albania and the Czech Republic). Besides the Czech Republic, Spain was the other member country of the European Union (EU) that signed a BIT during the reporting period with Mozambique. Twelve DTTs (that avoid double taxation) involved an EU member State (Austria, Cyprus, Denmark, France, Ireland, the Netherlands, Portugal, Slovenia, Spain- Income Tax Treaty between Panama and Spain).

Overall, Spain is a net exporter of foreign direct investment (FDI). During the late 1990s, international cross-border investment experienced a period of significant growth. Spanish FDI was no exception. By 2000, it had reached a high of US\$ 53.7 billion, placing Spain as the world's sixth largest capital exporting country. However, recent international crisis have led to a massive decline in foreign investment worldwide. Spain reduces its ranking as cross-border investor to ninth worldwide. But the decrease of FDI in Spain was smaller than the EU average. Much of the growth in Spanish investment abroad over the past decade has been directed to Latin America. Spanish FDI in the region has largely been concentrated in the financial services, telecommunications and energy sectors. Today, Spanish companies are amongst the leaders in these sectors in Latin America. As Spanish investors look to reduce their exposure in Latin America, the majority of new investment is occurring in other EU countries and, to a lesser extent, in North Africa. Interest in investing in the Asia Pacific region is emerging although this amounts to only few per cent of total Spanish foreign investment.

Spain's accession to the European Community in 1986 and the Government's ambitious program to transfer the assets of state-owned enterprises to the private sector has stimulated large inflow of FDI into Spain. Foreign multinationals quickly took advantage of the lower-cost environment, buying into and re-structuring many Spanish industries, including in the chemicals, pharmaceuticals and food and beverage sectors. The motor vehicle manufacturing industry, now almost entirely foreign owned, presents a particularly good case, with Spain now the sixth largest car producer in the world.

The European Union (in particular, the Netherlands, Germany, France and the United Kingdom) was the principal investor in Spain, accounting for 69 per cent of all FDI up to 2000. The United States, followed by Japan, was the single largest investor, providing one third of investment in Spain. More recently, the services sector has been the main target of investment, in particular the transport, communications and financial sub-sectors, receiving a total of 82 per cent of total FDI up to 2000. Around 23 per cent of FDI was directed to the industrial sector, more specifically the automotive, chemical, food and beverages, electronics and pharmaceutical sub-sectors.

Despite a downturn in foreign investment in Spain in recent years, Spain continues to present welcoming environment for foreign investment over all. The EIU assessed Spain's business environment as 17th out of 60 countries worldwide, based on government policies to encourage investment, increasing economic openness, and reforms of technological and transport infrastructure, the energy sector and the labour market that have improved Spain's economic efficiency. The relatively stable macroeconomic climate over the past decade, enhancing the capacity of firms to effectively plan long-term investments, contributed to the improved ranking.

In the beginning of this decade, the Government has pursued a number of policies aimed at making Spain more attractive to investors. Under recent reforms, full foreign ownership of equity is now permitted and capital movements have been completely liberalised. A wide range of economic incentives is offered, both by the central government and the autonomous communities, for companies that set up operations in Spain. Incentives include financial subsidies, preferential access to official credit, bonuses for the acquisition of certain material, real estate grants, incentives for research and development, tax deductions and exemptions, guarantee of dividends, bonuses and incentives for hiring and training workers and low interest loans. Any firm with foreign capital has the same access to these incentive schemes as Spanish firms.

Spain is also ranked by the EIU as the least expensive of the EU countries studied for doing business. In particular, Spain has low cost labor and transport, and the introduction of the single European market and currency has eliminated exchange rate fluctuations and reduced overall transaction costs. It should be noted that Spain's present comparative cost advantage still has been diminished with the accession to the European Union of new members, particularly the lower-cost Eastern European countries. However, the structural reforms implemented over the last decade should mean that Spain continues to offer a competitive, yet more secure, stable and reliable environment in which to conduct business. Spain is the eighth largest industrialised economy in the OECD. For the past five years, the Spanish economy has experienced one of the strongest rates of GDP growth in the European Union.

The data analysed for Spain in 2011 show a strong recovery in foreign investment in 2010 compared to 2009, when the fall force of the crisis was being felt. Over the course of 2010, Spain received a total of 23,415 million euros worth of foreign direct investment, which was 41.5% more than in 2009, and confirms a trend towards the recovery of foreign investment in Spain.

And disinvestment went down by 7.6% compared to 2009. As a result of these figures, net investment grew more than gross investment, which was 53% higher last year than in 2009 and worth 20,481 million. By investment origin, the Netherlands was the largest investor, followed by France and the United Kingdom. These three countries accounted for 56% of total flows received by Spain in 2010, and are followed by Italy, Luxembourg and the United States.

The main sectors receiving foreign investment flows during 2010 were Transport and Storage (17%), Real Estate Activities (17%), Manufacturing Industry (14.8%), Financial Activities and Insurance (12.9%) and Electrical Energy Supply

(11.9%). These major sectors are also those that have historically been of most interest to foreign investors.

The Spanish government seems willing to encourage foreign investment in R&D. It would not be a bad strategy since the R&D expenditures of Spanish companies is quite low, but experts say Spain must undertake major reforms to attract foreign investment.

The presence of multinational companies in Spain took an unexpected turn with the country's entry into the European Union. Many companies then saw an opportunity to reduce their production costs by opening plants in Spanish territory. Catalonia, in the mid-1980s, developed particularly well in this sense with tax policies that encouraged the arrival of foreign capital that, in turn, created jobs. Most companies, however, opted for the establishment of subsidiaries associated with production and assembly with little capacity to influence decisions in the parent company. Still, over the years, a considerable part of companies chose to seek new locations, particularly in Eastern Europe. In Spain, those companies which require a highly skilled workforce have stayed and opened doors to collaboration in R&D objectives predetermined by the parent company but that are developed in communities such as Catalonia, Madrid and the Basque Country. So, this was one of the Spanish ways to fight against losing FDIs.

It is well known that large corporations can act as an engine of economic growth. Given the potential benefits of attracting and, especially, retaining the R&D activities of multinational companies in the form of technology transfer and its influence on the surrounding communities (from academic institutions to local suppliers), Spain identified the key factors behind the attraction and retention of foreign R&D investment with the aim of contributing to improving the design of future policy in this area. Companies in this foundation are: Alstom, Arcelor-Mittal, Ericsson, Hero, Hewlett-Packard, Sony and ThyssenKrupp Elevator. All of them operate in Spain and have R&D departments in their Spanish subsidiaries. Overall, about 40% of these companies' investment budgets goes toward R&D. While Spanish companies have reduced by 7.72% their average expenditure in innovation between 2003 and 2008, the (multinational) subsidiaries have increased such spending by 25.44% over the same period." The aim would be to capture this increase by foreign firms while promoting economic development areas around them.

According to the results of the study, multinationals are positive about Spain's market potential and its relationship with Latin America, and the availability of academic staff, technicians and scientists, as well as a governmental science policy which, on paper, is aligned with corporate interests. However, the study says that foreign corporations want stronger action in the form of public aid and investment in R&D, are wary of the ability to attract talented researchers and do not find enough top-notch research centers in Spain. The weight of the bureaucracy, the lack of research clusters and the excessive distance between academia and business, along with other minor factors, hamper the interest of multinational subsidiaries to invest in R&D on Spanish soil.

The vast majority of empirical studies analyzing the determinants of foreign investment in Spain have tended to focus upon macroeconomic factors and to a lesser

extent on regional factors (X. A. Rodríguez, J. Pallas, 2008). This study looks jointly at macroeconomic, regional and sectoral factors. The analysis investigates the sectoral, regional and macroeconomic variables that have successfully attracted FDI inflows from those that have not. Empirical results suggest that the differential between labour productivity and the cost of labour has been an important determinant of FDI in Spain during the analyzed period. Factors related to demand, the evolution of human capital, the export potential of the sectors, and certain macroeconomic determinants that measure the differential between Spain and the European Union average, also play a very important role in attracting flows of FDI. Certain policy issues that are relevant to the results are also discussed.

The demand factors have, in general, been statistically significant. It should be underlined that the variable that takes in the difference between the productivity of labour and its cost plays a key role in explaining the behaviour of FDI. This result both clarifies and, reaffirms the results obtained in similar studies, in the sense that it quite clearly shows that firms are motivated, not solely by the evolution of labour costs, but by the relative difference between labour productivity and labour costs.

Human capital, which is a fundamental element of increased per-worker labour productivity, when considered individually, is also a significant determinant of foreign investment in the different regions. In addition to productivity, a further indicator of competitiveness is the export potential of the manufacturing sectors, which clearly reveals itself to positively influence the entry of flows of foreign investment.

Of all of the macroeconomic factors utilized that measure the situation of Spain with respect to the EU average, the two which, in general, have been statistically significant and take a negative sign in the definitive models estimated were, fiscal pressure and the inflation differential.

Fairly predictably, the sectoral or regional determinants have performed better than those that work on the national Spanish level (the specific factors have been shown to be relatively more important than macroeconomic factors). This result is in line with those obtained by Giulietti, Mccorriston and Osborne (2004).

In view of the results, it would seem evident that economic policy in Spain orientated towards attracting foreign direct investment, besides taking into account the traditional factors of demand and costs should focus on boosting all of those variables that favour the growth of labour productivity as is the case of investment in education, research, innovation and technology.

2.1. Measures to prevent the loss of foreign investment in Spain during the crisis

When the global financial crisis struck and the very favorable international credit conditions suddenly disappeared, the Spanish economy began an inevitable adjustment process, with a substantial reduction in consumption and investment by 2008, when housing investment plummeted. This adjustment, that has helped to correct the excessive indebtedness of the private sector, has led however to a large decrease in economic activity, with GDP growth in 2009 at around -3.6%. At the same time, the work of automatic stabilizers, the loss of the revenue windfalls obtained during the expansion and the expansionary fiscal programs put in place by the government to

mitigate the effects of the crisis, have led to a very rapid deterioration of public accounts, that have moved from a surplus of around 2% of GDP in 2007 to deficits of around 4% and 11% in 2008 and 2009, respectively. All together, the Spanish economy has very quickly reduced its need for external financing as its current account deficit has decreased from around 10% of GDP in 2008 to around 6% in 2009, being now mostly driven by fiscal deficits rather than by private indebtedness as in the expansionary phase.

With this evidence in mind, several questions arise: i) to what extent are the fall in interest rates and the profound demographic changes witnessed in the Spanish economy over the last decade responsible for the expansionary phase and the build-up of imbalances?, ii) could have fiscal policy contributed more to avoid the build-up of these imbalances?, iii) how would structural reforms increasing competition in the product and labor markets have diminished the saving-investment gap and the loss of price-competitiveness of that period?, and iv) looking ahead, once the economy has been hit by the global financial shock in 2008, how would alternative fiscal policies and reforms in the labor and product markets may affect the expected macroeconomic evolution of the Spanish economy?

The empiric results of Ángel Gavilán, Pablo Hernández de Cos, Juan F. Jimeno and Juan A. Rojas in 2011 indicate that, in line with Izquierdo, Jimeno and Rojas (2010) “Life-cycle earnings, cohort size effects and social security: a quantitative exploration”, interest rates and demographic changes are the main responsible for the investment boom and the build-up of a sizable external imbalance (measured as the ratio of net foreign assets to GDP) witnessed in the Spanish economy during the expansionary phase. In this context, we find a very limited role for fiscal policy in reducing the external imbalance accumulated in Spain over the period 1998-2008. In particular, our results show that a temporary reduction of government expenditure over the expansionary phase would have reduced the size of the Spanish external imbalance by 2008 only very slightly.

A more permanent tightening of fiscal policy could have even increased this imbalance. With respect to the effects of structural reforms in product and labor markets pursuing an increase in competition in these markets, we find that, although they would have not helped in reducing the external imbalance of the Spanish economy over the period 1998-2008, they would have led to a short- and long-run expansion of output, employment and investment, and to a substantial improvement in competitiveness and in public accounts. It is precisely due to these positive effects on the economy that these structural reforms may naturally induce in the short-run an increase in the external indebtedness of the economy, as forward-looking households anticipate lower taxes and a more efficient economy in the future and try to smooth their consumption.

As for the macroeconomic behavior of the Spanish economy beyond 2008, this empiric model suggests that, even without the arrival of the crisis, in the medium- and longrun the Spanish economy would have entered into a phase of lower GDP growth where the external imbalance of the economy would have been reduced but where public accounts would have deteriorated. This process, mostly driven by the aging of the Spanish population, has become more pronounced with global financial crisis.

Furthermore, the model highlights the relevance of fiscal policy and of structural reforms in the post-crisis scenario. Front-loading in fiscal consolidation would contribute to public accounts' sustainability and to mitigate the output losses induced by the crisis in the medium-term. In addition, policies aimed at improving competition help in reducing short- and medium-term output losses, while inducing a positive long-run effect on the level of output.

The authors mentioned above tried to find out what was the role of the fiscal policy during the entire period analysed for Spain. The restrictive fiscal policy is simulated through lower public expenditure growth than that observed in the data. Their results show that the role that a tightening of fiscal policy could have played in the reduction of the Spanish external imbalance would have been very limited and would have depended on the temporal dimension of this tightening. A transitory change in fiscal policy would have reduced the economy's external imbalance only very slightly, by affecting public savings without significantly distorting private ones. Instead, a permanent fiscal tightening would have had a negative effect on the economy's net foreign assets as it would have distorted optimal decisions by forward looking agents and reduced private savings.

Second, they investigate the role played by labor and product market reforms in the correction of this imbalance. This is relevant insofar as the Spanish economy experienced a progressive increase in its prices and costs relative to those of its main competitors during the economic boom, which may have had an effect on net exports, and there is evidence that this rise in relative prices and wages is related to labor market rigidities and insufficient competition in some markets. The results show that, if structural reforms in labor and product markets had been adopted in the Spanish economy over the period 1998-2008, the expansion of economic activity, investment and employment would have been more intense than the one observed over that period.

The external competitiveness of the economy would have also improved relative to a non-reform scenario and the improvement in public accounts would have been larger. These reforms, however, would have implied a further deterioration of the Spanish external imbalance over the 1998-2008 period. Increased investment, once market distortions had been reduced, and reduced private savings, as households try to smooth their consumption anticipating lower taxes and a more efficient economy in the future, would be responsible for this further deterioration.

The framework set out in this paper has also been used to analyze the different policy options faced by the Spanish economy after the crisis. Several results are worth mentioning. First, even without the arrival of the crisis, in the medium- and long-run the Spanish economy would have entered into a phase of lower GDP growth where the external imbalance of the economy would have been reduced but where public accounts would have deteriorated. This process, mostly driven by the aging of the Spanish population, a factor that is common to most industrialized countries, has become more pronounced with global financial crisis. Second, the model highlights the relevance of fiscal policy and of structural reforms in the post-crisis scenario. Frontloading in fiscal consolidation would contribute to public accounts' sustainability and to mitigate the output losses induced by the crisis in the medium-term. In addition, policies aimed at improving competition help in reducing short- and medium-term

output losses, while inducing a positive long-run effect on the level of output. In light of the complementarities between these policies, the recovery of economic activity in Spain after the crisis could be more successful and less costly if they were implemented together.

Researchers at Universidad Carlos III de Madrid (UC3M) assert that certain recent decisions made by the Administration which affect the taxation system of Spanish holding companies are producing legal uncertainty which could lead to loss of foreign investment in Spain.

The theory holds that one of the best ways to attract foreign capital consists in the adoption of a reduced level of taxes in certain cases, and above all, in the provision of legal certainty. This aim of attracting foreign investment inspired the measures for the the Entidades Tenedoras de Valores Extranjeros (ETVE) or Spanish holding companies, adopted in Spain in the late 1990's and which led to the establishment of these companies in Spain by multinational companies. However, things are changing, according the head of the UC3M Research Group of Taxation and Finance Law, Juan Zornoza Pérez, who pointed out that in the last few years the Spanish Administration is revising the tax situation of these holding entities in order to limit some of their obtained profits by considering that they are committing unfair practices, which could, in fact, hurt the Spanish economy.

The holding companies have capital shares in other entities and the essential advantage that they enjoy in our country, in theory, is that when these entities distribute dividends to the holding companies, the dividends that they obtain from the foreign shareholders, they are tax exempt in Spain. Furthermore, the holding company at the same time distributes profits to non-residents shareholders in Spain, who are also tax-exempt in our country. "By doing this, the holding company income is exempt from taxes in Spain, and this prevents any kind of double imposition of taxes", Zornoza explained, who is Full Professor of Taxation and Finance Law at UC3M.

In recent years, researchers from this Madrid university have observed that this change does not reflect a legal decision, but rather an Administrative policy. "There are some Administrative Court decisions that manifest the Administration's behavior, always being based on alleged situations of unfair practices", he remarked. In this sense, for example, share buying by the holding companies is almost always financed with credit, which generates expenses that are tax deductible. "In many cases", Zornoza explained, "the Spanish Administration is questioning the deduction of these expenses thereby eliminating part of the tax benefits of the holding companies as they were initially conceived, and generating an enormous level of uncertainty for foreign investors who had decided to use this formula to attract investments to Spain", he concluded.

The main suggestion made by the researchers in this respect is based on the application of the principles of Rule of Law. "This is something obvious, but it is necessary to stress this fact given the lack of understanding from which our Tax Administration suffers and on occasions our Courts as well, when it is actually an international taxation matter. What must not occur within this framework, they point out, is that the legislator establishes a system, by which certain tax benefits are obtained and then the Administration partially or totally eliminates most of all of those

benefits by applying unfair practice laws in a very debatable way, and of course, very inadequately so in the international context. "If a legislature wants the interests that are paid when shares are acquired which result in exempt income to be non-deductible then what they have to do is to say so and modify the law, because as long as they do not do that, it is the duty of the Administration to respect it, in accordance with its spirit and within the framework that guarantees the legal certainty of investors", Zornoza declared. "On the contrary", he added, "we shall be witnessing a steady decline in the holding company system as this form of investment leaves Spain, thereby damaging our economy to some extent."

3. SPANISH INVESTORS IN ROMANIA

Romania is actively integrated into the European economical environment, as reflected by the distribution of FDI per countries of origin. The top ten countries' classification according to foreign capital registered at 30th of December 2008 is presented in the Table 1. Table 2 presents the largest foreign companies that activate in Romania.

Table 1. Top ten countries according to foreign capital registered at 30th of December 2008

| Distribution of FDI per countries of origin for companies with foreign ownership (30 th of December 2008) | | | | |
|--|-----------------|-----------------------------|--|--------------------|
| No. | Country | No. of registered companies | Value of the registered shared capital (EURmn) | % in total capital |
| 1 | The Netherlands | 3,456 | 4,016 | 18.49% |
| 2 | Austria | 5,375 | 2,651 | 12.20% |
| 3 | Germany | 16,664 | 2,278 | 10.49% |
| 4 | France | 5,873 | 1,777 | 8.18% |
| 5 | Cyprus | 4,255 | 1,099 | 5.06% |
| 6 | Italy | 26,984 | 936 | 4.31% |
| 7 | USA | 5,755 | 725 | 3.34% |
| 8 | Spain | 3,451 | 701 | 3.23% |
| 9 | United Kingdom | 3,940 | 661 | 3.04% |
| 10 | Greece | 4,484 | 655 | 3.02% |
| TOTAL registered capital - top 10 | | 80,237 | 15,499 | 71.36% |
| TOTAL registered capital in companies with foreign participation | | 159,927 | 21,723 | 100% |

Source: Statistical bulletin of the National Trade Register Office, December 2008

Spain is placed on the eighth place in the top ten major investors in Romania, with over 3,400 companies with Spanish participation registered by the end of 2008 within the Trade Register Office. The Spanish investment in Romania amounts to approximately EUR 700 mn, preferred investment fields being: automotive sector, construction industry, real estate, regenerable energy sector, clothing, food industry, agriculture, etc. Major players are: Acciona, Soluziona, Grupo FCC, NH Hotels, Enaco, Campofrio, Fadesa, Grupo Losán, Mango, Zara, etc.

Lately, in the last decade, Spain became one of the important world investors. The main destination for Spanish investments is EU-15, with a share of almost 75% of the total net investments (74,47%, respective 14.858 millions euro in 2003). Next, there is USA with 1361 mil. Euro (6,82%) and then follows the Latin America countries with 906 mil. Euro (4,54%). It is worth noticed that in this region, investments tended to decrease (79,85% comparing to 2002).

The net Spanish investments in the new member states recorded in 2003 a rise of 20 times comparing to the previous year. Romania became a new pole that attracted Spanish investors, Spanish firms looking to benefit from the increased European funds available for Romania in the pre-accession period and especially, after its accession in 2007. The main sectors attractive for Spanish investments are infrastructure, energetic sector, agriculture and real estate sector.

Table 2. Largest foreign companies in Romania

| Largest foreign equity investors in December 2008 | | | | |
|---|---------------------------------|-------------------|-------------|-----------------------------|
| No. | Investor | Country of origin | Activities | Subscribed capital (EUR mn) |
| 1 | E.ON Romania SRL | Germany | Energy | 72,3 |
| 2 | Roche SRL | Switzerland | Healthcare | 41,5 |
| 3 | Unita Vienna Insurance Group SA | Austria | Insurance | 35,9 |
| 4 | WS Renewable Energy Hydro SRL | Austria | Energy | 22,3 |
| 5 | Lidl Romania SCS | Germany | Retail | 21,4 |
| 6 | Degi Titan SRL | Germany | Real estate | 17,5 |
| 7 | Nova Imobiliare SRL | Cyprus | Real estate | 15,8 |
| 8 | Kato Drys SRL | Cyprus | Real estate | 14,8 |
| 9 | Stret Furniture Company SRL | Netherlands | Furniture | 12,0 |
| 10 | Trelleborg Automotive SRL | Sweden | Automotive | 11,9 |

Source: Romanian Trade Register Office, December 2008

Management of the EU member state position for Spain was based on three fundamental principles. First, professionalism and continuity inside the administrative organisms that managed the Spanish relations with EU. Second, presenting an Europe image that could show the compatibility between defending the national interest and the general interest of EU. Meaning, an image of an integrated and solidar Europe to which Spain can contribute as a nation inside the European family. Finally, it is very important fiability in the moment of achieving the assumed tasks and the concern about the interests of other state members.

Regarding the problem of accession to EU, Spain received a substantial assistance after its accession to EU. Still, Spanish development was based mainly on foreign investments rather than European help. In the previous years of accession to EU, Spain was practically isolated, a closed economy. In 1986, when it acceded to EU, GDP/capita in Spain was 70% of the EU average. In the last 20 years, things are changed. In 2007, it reached 101% of the EU average. Beyond this numbers, it is impressive that Spain succeeded even from '90s to change from a country that exported labor force into a country that imported labor force and, starting with 1997, the volume of its businesses abroad overcame the volume of the foreign direct investments.

Today, Spain can be proud of its group of top companies that are worldwide known: Zara, Porcelanosa, Banco de Santander. Spain ranks on 8th place in the top of the world investments and on 2nd position regarding the investments in the Latin America. In the last 15 years, its development was faster than the European average and that placed Spain on 7th position worldwide. Spain is mainly known for turism and that is normal if we consider that it is the 2nd turism destination in the world. But, what is less known are the performance of the Spanish companies in different technical sectors. In telecommunications, Telefonica ranks on 3rd position worldwide.

If some years ago we talked about an Austrian investors invasion, lately it is visible "a Spanish explosion": in the last years have settled here 2300 companies Spanish owned, that represent almost 60% of the total Spanish firms existing in Romania, according to the Spain Embassy at Bucharest. And if this trend will continue, Spain may become one of the first economic parteners of Romania in the following years. Significant Spanish investments in the Romanian real-estate sector - also accelerated by the crisis in the real estate iberic sector - represent one of the reasons for Caixa opening a subsidiary in Bucharest in 2007.

The large number of Spanish investors in Romania during 2002-2008 has brought to Bucharest the first iberic bank "la Caixa". And the volume of the announced Spanish investments here implies that the bankers will work hard from now on. La Caixa, from the capital of Catalonia, is the 3rd large Spanish financial group regarding its assets and imcomes, after Santander and BBVA. Completing its "shy presence" in the Central Europe, the largest Spanish saving house, la Caixa, has started its activity on the Romanian market. With only one subsidiary at Bucharest, the Spanish bank doesn't address (and it couldn't) to retail business, but only to companies. At least, for the moment.

Spanish bank opened one subsidiary in Bucharest and doesn't intend to settle other subsidiaries, they want to know first the Romanian market. Their bet is simple and reminds us somehow of the one made, many years ago, by other foreign banking

groups, such as ING, Bank Austria or AMN Amro: to do business with the clients from their country or coming from there - in this case with Spanish companies that are settled here or intend to settle here on the Romanian market or, viceversa, with Romanian companies that are willing to invest in Spain. But, the actual context for the Spanish bank is very different from the one of many time ago when the foreign banks afforded to concentrate only on corporate segment - the bankers of the Romanian market that were interested in the past only of the corporate segment are saying now that a profitable business and of large volume can't be imagined without retail segment.

According to their statements, the Spanish bankers don't want a business of a large volume and numbers. They came here to join the clients from home, given the rising volume of FDIs on the Romanian market. So, if in 2005 the investments volume was under a level of 25 millions euro, in 2006 the Spanish investments increased to over 150 millions euro. But, beyond the numbers, that are small comparing to the number of the total direct foreign inflows in Romania in 2006, that was over 9 billions euro, we can see that the Spanish money in the Romanian economy are more and more present and noticed. For example, on the real-estate market, the Spanish companies became, at least until the crisis that has started since 2008, an important presence. Following a long raw of Israelian, Austrian or English investors, the Spanish companies started to come on the Romanian market in large numbers.

Despite the Austrian or English investments funds that acquired lately started or finalized projects, the iberic companies preferred to invest greatly in lands acquisitions, announcing real estate projects of millions of euros. And the investment amounts announced by companies such as Fadesa Imobiliaria, GEA Prasa, Riofisa, Detea, Grupo Lar, NH Hoteles or Hecesa (to name only some of the 20 companies in this area that are present in Romania) will overcome 500 millions euro in the following years.

In fact, the constructions and real estate sectors are preferred by the Spanish companies, even if iberic investments don't lack eighter in other sectors, such as component auto industry, wood industry. In the present, in Romania function almost 3500 Spanish companies and almost half of them are in the real estate sector.

If we take into considerations all these realities, the initiative of the banking Spanish group on the Romanian market becomes more consistent, even if it doesn't consider the retail business. In fact, they entered the same way on the Polish market, when they settled a subsidiary in Warsow. Poland and Romania, the greatest markets in the Central Europe as population, are therefore a logical destination for the Spanish saving house. Neither in Poland, Caixa looked for the retail business. Back to the Romanian market, they stated that if they will have the opportunity to buy a retail bank, they won't hesitate. Despite their neighbors, the Portughese from Millennium bcp - that settled an universal bank from "zero" on the Romanian market - Spanish bank don't consider greenfiled investments for the retail business.

Either in Romania or in other Central and East European countries they entered, the retail business won't be developed step by step, but only by acquisition of some banks that have already had a market share of at least 3-4% to offer to the Spanish bank. It also tried to enter into Bulgaria - competing with the Belgium KBC for buying

the major stock pack of the ninth local bank, EI Bank - but it offered less than the competitors and it lost. But in Romania, it didn't make any offer to any retail bank. It is difficult to anticipate to whom the Spanish bank will make an offer, given that Romanian banks (such as Transilvania or Carpatica Banks) are already too expensive, and not many years ago, Romanian state refused to sell CEC Bank for a very large amount.

Almost 20 Spanish real estate companies have projects in Romania, but only 9 of them announced significant investments, that overcome 3,2 billions euro, in the next years, although the numbers have been changed once the crisis erupted in Romania. For the next ten years, the estimated numbers reach a level of 7-10 billions euro. The largest investment is the one announced by Fadesa in residential sector.

But, the most active Spanish investors in Romania is Bogaris group, that has businesses in real estate, agriculture and eolian energy sectors. In Romania it focuses on real estate sector, but in Spain it doesn't make residential projects. Company businesses weren't much affected by the crisis in the real estate sector in Spain, because 90% of their incomes are from renting the commercial spaces they have built and the Spanish crisis manifested only on the residential segment. The company started its expansion in the Eastern Europe 4-5 years ago and it also settled on the Romanian market in 2005, just like it intended to overcome the crisis effects. After a rebranding at the central level - the Spanish company has changed its name from Detea to Bogaris, that has unified all the group divisions - Spanish company declares that is ready to build in Romania as many retail parks as it could. And to attract another iberic investors, for whom it has already searched lands around Bucharest.

But not all the Spanish investors are as lucky as Bogaris, so they won't be affected by the real estate crisis. Financial Times says about another important Spanish company in the construction sector, FCC, that is "extremely exposed to collaps, given the lately investments" that imposed a rise of the residential prices with an average of 150%. The demand was already quite low, especially after the redirection of the buyers from Northern Europe to another markets (including Romanian market). And the effect on the construction companies has already been seen at the Stock Exchange, where they suffered important losses. And here appears the redirection plan to the Romanian market, that many Spanish firms have considered the logical next step for their development. From two reasons: Romania, after its accession to EU in 2007 is just like Spain of the '80s - in the time of its accession to EU, in 1986, Spain was one of the lowest economically developed country - so, the Spanish recognize the pattern of a similar evolution, and also, the ratios of rentability are greater here than in other Eastern European Countries. Looking from this prospective, it is no wonder that FCC, although in Spain is falling at the Stock Exchange, has an investment portfolio of 500 millions euro in Romania, so being able to become the main player that invests in infrastructure. And only in great project: together with the Italians from Astaldi, FCC built the Basarab pasaje from Bucharest, an investment worthing 135 millions euro.

Also, Graells&Llonch company has an ambitious project that has started in 2005, namely building a logistic ensemble at European standards at Prejmer (close to Brasov). It is an unique project, on industrial segment of real estate Romanian market, and its value is of 350 millions euro. Initially, it was supposed to be finished in 2009

and it brought a new concept for the logistic investments in Romania: the companies can buy lands, and on these surfaces it will be built industrial deposits, according to the requests of the businessmen. Plan of the Graells&Llonch also contains a series of connex services and facilities for the business environment: a medical centre, restaurants, banking offices, infrastructure for telecommunications, transport agencies, business centre, conferences halls, internal program of administrative residuals.

Apart from the real estate sector, the auto components sector has attracted significant Spanish capital, among iberic companies being ACE from Cluj, CIE-Matricom from Targoviste, MMF and Mapsa, both from Turda, Caucho Metal from Sibiu or BAMESA from Topoloveni.

The Spanish offensive regarding investments is still derulating, even in the context of diminishing the FDI's in Romania. What are the Spanish looking for, beyond the profit granted by the attractiveness of the local market? The investors want that the volume of their business abroad to overcome the FDI's from Spain. So, we can say that the inflows of the Spanish capital won't stop here.

The main Spanish investors in Romania and their projects are: FADESA residential projects in Bucharest and Bacau, BOGARIS residential, commercial projects and office, HERCESA IMOBILIARIA residential projects in Bucharest, GRAN VIA residential projects in Bucharest, RIOFISA mixt projects in Timisoara and Brasov, GEA PRASA residential projects in Bucharest, GRUPO LAR residential projects in Bucharest, IBIZA HOUSE residential projects in Bucharest, IUE LEADER IMOBILIARE residential projects in Bucharest.

An OECD Report of 2010 ranks Romania on 4th position worldwide regarding its openness to FDI's, while Spain is on top too, on 7th position. The Report analyzes the obstacles for FDI's using four main indicators: restrictions against capital participation, the necessity to obtain or not the approval of the administration for doing the investment, some eventual obstacles for the foreign workers and some other restrictions. These four indicators were studied in 22 economic sectors of each country.

Spain scores great at three of four indicators and registers restrictions only for capital participation. This fact is because some limitations in transport, communication media and business services (consulting, audit) sectors and less, in financial services area (banks, insurance companies).

The study underlines that OECD countries are the most opened to FDI's. The first place is for Luxemburg, followed by Netherland, Portugal, Romania, Slovenia, Belgium and Spain. The greatest obstacles for FDI's are in the emerging countries such as China, Russia, Saudith Arabia, Indonezia and Mexico.

An efficient administrative system, massive investments in infrastructure, privatization of state-owned companies, an economic policy oriented more to investments than to consumption, a legislation package well elaborated, decentralization, flexibility of the labor force is the model that helped Spain to reach an economic growth above the EU average.

Since 2004 to present, the trade between Spain and Romania has doubled. Spanish exports to Romania increased over 30%/year, at least until 2009. Although Romania was many years on a descendant path of economic growth, the main problem which needed to be considered by the Romanian officials was how sustainable was that

economic growth. Spanish model could be a good example for the Romanian government.

Spain has invested much in the last years in infrastructure, having a very modern network of highways today that cross entire Spain. Just as Romania, Spain is a peripheric country and quickly realized that is essential for their economic growth to have a modern infrastructure that could connect them with the Central and Eastern Europe. They faced difficulties, because the Spanish relief is not very plain, but they used their creativity and labor force and all the necessary resources to develop one of the most performant infrastructure in Europe.

After its accession to EU, Spain invested almost 3% of GDP for infrastructure. The path of investments has decreased lately to 1,5-2% of GDP, but it still means an important amount, because Spanish GDP is nine times bigger than the Romanian one. Spain spent in 2007 25 billions euro in infrastructure, which means almost the entire amount that Romania will receive during 2007-2013 from EU as non-repaying funds.

Another important factor that helped the development of the Spanish economy is administrative system. When Spain has acceded to EU, it has already had a functional public administration, competent, efficient and that is what should be improved in Romania also. The Romanian government should allocate resources to establish an administrative model that it wants to develop. An essential factor is training and keeping the labor force in this sector. It is essential to maintain the people in the system, because if they leave after a few years, they will take with them the know-how and then, it starts from "zero" all over again. The administration plays a key role in derulating the EU funds and not only.

Spain is different from other EU countries by adopting a privatization policy of the companies from the key industries. In Spain, all the governments decided that the best way to keep on going was to privatize the companies from strategic sectors, such as energetic one. The Spanish citizens were allowed to buy stocks, and meanwhile, these companies became multinational. The efficient management implemented after the privatization have had a positive effect because the state wasn't forced to allocate funds to cover the debts of the companies that lost important amounts, so it was a relief for the state budget. The state not only escaped the debts, but it succeeded in collecting incomes and taxes and now, these companies have become multinational.

In the telecommunication area, Telefonica ranks on 3rd position worldwide. In the top technology and software, INDRA realizes the soft for three of five planes that lands anywhere in the world, and manages 70% of the Romanian electric market. It has also a contract with the Romanian Ministry of Defense worsing 80 millions euro to elaborate the supervising system for the fronteers at the Black Sea. These are only few examples of Spanish companies that belonged to Spanish state 20 years ago and now they are in the private sector.

A Spanish advantage as economic policy concerns was to orientate more to investments than to consumption. In the present, from the beginning of 2011, in Spain registers a second wave of downturn trend, after the crisis that erupted in 2007. But, it may be a normal situation given the fact that Spain had an economic growth over the EU average for ten years. Still, the problem is that the recession is greater than it was

expected and that led to the diminishing of the economic activity that continued also at the beginning of 2011 and that causes social frictions.

In Romania, are needed some policies that would help people to move on to the regions with jobs and to attract back home the labor force went to work abroad, especially in Spain and Italy. In Spain, Romanians have become the first minority. Some of the people that are working in Spain now should reorient in the frame of the actual crisis or decide if they will come back home.

If you need a developed country, you should insure labor mobility to the regions with a development potential. For example, in Bucharest there are many jobs, but the main problem is finding a house at an acceptable price or rent.

It is also necessary a stable legislative system to attract the investors. Unfortunately, in Romania the laws keep on changing and there are many interpretations of law and this can't help long-term investments, because the climate should be much more predictable.

Among the factors that are deemed to support higher FDI in the future, the following are the most important: Romania is a politically and socially stable country, Romania represents the second largest market in the CEE region, after Poland, Romania offers a strategic position, Romania offers relatively high qualified labor force at low costs, still below the levels of other countries in the CEE region, the country has rich natural resources (agricultural land and mineral deposits) and offers proximity to energy suppliers and, as part of the EU, Romania has access to European fund sand offers the advantage of having bilateral agreements with other countries, bilateral diplomatic relations and free trade agreements signed.

4. CONCLUSIONS

After 1989 the economic development of Romania was supported by various incentives or benefits offered to the investors, such as free trade zones, tax exemptions on profits or employees taxes, funds for low developed areas etc. However, once Romania has entered in European Union the number of such incentives that may be granted to various investors has been reduced as a common legal framework for all EU countries is intended to be applied. Moreover, most of the actual incentives need to be agreed with EU before being announced and applied. The most important support measures for companies now are the EU structural funds and the state aid schemes. In Romania, the main interest nowadays is focused on the state aid schemes that have as objective the regional development through stimulation of realizing investments and creation of new workplaces.

At the end of the '90s, Spain had already a decade of membership in the European Union. FDI played an essential developing role in both cases, however in the CEE region FDI was also a vehicle of internationalization, a way of connection of these countries to the western developed countries. In the decade after 2000 integration of both Spain and the CEE countries strengthened by entering the EMU and the EU. With respect to FDI we cannot speak about massive inflows yet, but large single deals can determine the amount of yearly inflow in all countries. In the CEE countries

outward FDI became more and more significant - although not to the same extent everywhere. In Spain OFDI started much before, but also became more intensive.

One major concern of a developing country, such as Romania, is how to retain existing investment and attract new FDI in times of global recession. Economic stimulus programmes can be an incentive for foreign investment, but many developing countries do not have the financial resources to successfully compete with the investment promotion packages of developed countries. Moreover, incentives based competition for foreign investment may risk lowering social and environmental standards which would be detrimental for sustainable development. Governments have several tax instruments that they can use to attempt to influence the effective tax rates and the location decision of multinational companies (an effective tax rate was achieved in Spain with a lower corporate tax rate (35%), and lower rates of depreciation of buildings (3%) and equipment (12%)).

A number of countries have adopted economic stimulus packages that might have some positive impact on global FDI flows. Many countries - such as France, Germany, Spain and the United States - have also announced large public investment programmes mainly aimed at infrastructure development. These programmes may likewise have a positive effect on inward foreign investment provided that they are designed in a non-discriminatory manner and open to participation by foreign investors. But, keeping public revenues too low to adequately maintain or invest in infrastructure is unlikely to be a successful long run policy. Anyhow, there seems to be a relatively clear division between investment policies of the CEE countries and of the Western European Countries of EU. While the former may gain most by focusing on infrastructure and R&D policies, in the latter group policies to reduce the share of low-skilled workers, for example by encouraging firms to restructure production and increase capital intensity and through a reduction of labour costs via a decrease in non-wage-labour costs, would attract most FDI.

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