

## THE IMPACT OF DIRECT FOREIGN INVESTMENTS INTO THE ECONOMY OF ROMANIA DURING 2000-2015

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**Abstract:** *Accurate determination of foreign investments, portfolio ones and their performance is important in order to elaborate economic policies in our national economy. In this study we propose a presentation of the direct foreign investment concept and its most important effects for the economy of the receiving countries. International investment assumes the existence of at least 2 economic agents – the emitting agent of the investment and the receiving agent – located in 2 different countries, depending on the agreement between the two there's two big types of foreign investments : foreign direct investment, which implies the receiving agent allows the emitting agent to take decisions regarding the receivers activities and foreign portfolio investment, which doesn't imply transferring the control from the receiver to the emitter, it being a pure financial offer from the emitter. Placing an international investment in one of the two categories is difficult because of the diversity of concrete ways in which these investments happen and the different grades of dispersion coming from the company's shareholder in which the investment happens.*

**Key words:** *foreign direct investment, foreign portfolio investment, international stock investment*

### INTRODUCTION

The international investment presupposes the existence of at least two economic agents-the supplier of the investment and the beneficiary agent of the investment-located in two different countries, depending on the report established between them talking about two major types of international investment: Foreign direct Investment (FDI) involves transferring to the issuing agent the possibility of control and decision on the activity of the receiver, while foreign portfolio investment (ISP) does not imply transferring control from the issuer to the receiver, representing a purely financial placement of the issuer.

The framing of an international investment in one of the two types is difficult, however, because of the diversity of the concrete modalities by which these investments occur, but also the different degree of dispersion of the shareholders of companies in which it is made the investment.

In order to provide an answer to this issue, the Organization for Economic Co-operation and Development (OECD) has assumed the role of drafting a document defining foreign direct investments, entitled "The Benchmark Definition of Foreign direct investment" [3], starting from recognizing shortcomings in traditional statistical reporting models, from taking into account the expansion of the global business of multinational companies and increasing the complexity of funding Through various instruments, including through subsidiaries located in offshore financial centers.

This framework defines foreign direct investments as a reflection of the objective of obtaining a long-term interest in an entity resident in an economy ('direct investment Undertaking') by a resident entity in another economy ('direct investor'), this interest involving a long-term relationship between the direct investor and the direct investment undertaking, as a significant degree of influence of the investor on of the receiving enterprise management of the investment [1].

In Romania, data on Foreign direct investments and the performance of subsidiaries of companies with foreign capital can be found at the National Statistical Institute, National Bank of Romania and the National Office of the Trade Register [5].

## MATERIALS AND METHODS

The economic and social transformations to which all countries are subjected as a result of the globalization process continuously generate new determinants for foreign direct investments, the effects of which are not fully evidenced with precision. Certainly, however, the architecture of these determinants is in a permanent dynamic, provoked by the change of general business strategies and implantation abroad, especially for multinational firms and economic policies and Attitudes towards foreign direct investments of government authorities in host countries. At the same time, the impact of direct foreign investments on the host economies, determined by the positive and negative effects generated by the presence of foreign investment, is brokered by the same attitude towards direct foreign investments, concretized in the type of FDI promotion strategy adopted by host countries [2].

One of the most common and debated FDI concerns the effects they have on the economic and social wellbeing of a country. Moreover, if these effects are net positive, the question arises to what extent and by which instruments can they be boosted by the governments of the host countries. At the same time, there are also voices claiming that a very sustained presence of multinational firms in a country causes too much dependence on the foreign capital economy and the policies of these companies, which can be harmful, including for firms Not prepared to compete with multinational companies [10].

It is worth noting that, in recent decades, the general political opinion on the ISD has changed, which is rather understood as generating competitiveness and growth for host countries, and less in the light of their negative effects Economy. The visible result is the increase of international competition for foreign investment and the emergence of success stories such as Ireland, Poland or China. However, the effects produced by foreign investment in an economy depend on many factors, such as the nature and characteristics of the sector in which multinational firms are present, the period of time in which the impact of the investment is analyzed Foreign companies, the method of implantation of foreign firms (new investment – Greenfield, joint venture with a local firm, takeover of a local company, etc.), the strategies of multinational firms, but also, very importantly, the strategies of the host countries ' governments Towards foreign investment [8].

Romania's low performances in attracting foreign investment have several sources related to the legislative framework after 1990.

a) A first cause is the lack of a strategic document that specifically refers to the stimulation of FDI. The existence of a strategy for the attraction of FDI is essential for determining the expectations of the ISD economy, as for determining their role and importance for economic development. Since 2008, industrial policy documents, closest to what Romania has known as a strategy for foreign investment, have not been conceived; After this date they were replaced by the strategies developed as EU membership, far too general to perform the necessary role from the perspective of FDI" stimulation [9].

The lack of strategic investment-attracting sectors is another source of uncertainty for investors, whose only remains to make the investment decision based on flair. The governmental strategy for improving and developing the business environment of the year 2010 clearly suggests the lack of a strategic document to improve the business environment, in view of the orientation of future governmental policies On this issue, a national strategy or policies establishing the business support and research and development structures and a country economic brand. Romania had not after 1990 a coherent vision and no objectives indicating the engine for economic development in the future, in the context of an increasingly integrated global economy.

b) The second case lies in the absence of economic levers to attract FDIS. Instead, Romania has a system of generalized tax and financial facilities, mainly applicable to large

companies, which do not distinguish between domestic and foreign investors. Currently, there are two state aid schemes for which both national and foreign firms can apply:

- State aid scheme to support investment promoting regional development through job creation (HG 332/2014), which considers all economic sectors. The aid is offered by region and the investor is obliged to create at least 20 new jobs, of which minimum 3 for disadvantaged workers [11].

- State aid scheme aiming to stimulate investments with a major impact in the economy (HG 807/2014), dedicated to all economic sectors. The aid granted is non-refundable and differs depending on the region of implantation of the investment.

Industrial parks and clusters designed to improve the business environment are heavily concentrated in the already developed areas of the country and are not entirely functional. Romania needs clear criteria for performance (e.g. number of jobs created, region of investor implementation, volume of research, development and innovation expenditure, etc.) on the basis of which to grant tax facilities and Investors so that the contribution made by the foreign investment in Romania can be assessed in a concrete way [12].

c) The third case falls within the low efficiency of the Romanian agencies for attracting investments, which did not suggest that it would have a position of force as a negotiating partner for foreign investors or as a government representative [15]. Unfortunately, Romania does not have the experience of a successful agency in attracting FDI. Changes concerning the public institution with which the foreign investor should come into contact are common (such as change of name, transfer of government control to ministries, etc.), which draws attention to the lack of consistency in Promotion of FDI. While a good part of the work in promoting FDI is transferred from one institution to another with the change of the name of the agency, its mere rename or the transfer of coordination from the Government to the Ministry of Economy and vice versa can prove to be confusing for investors.

Romania has had 6 investment-attracting agencies in 26 years, now the institution dealing with foreign investment attraction is the Foreign Investment Directorate (InvestRomania), located within the Ministry for Business, Trade and Entrepreneurship. The fact that it is an integral part of a wider department increases the lack of visibility of the institution for foreign investors and may suggest that Romania is not so much interested in attracting foreign investment [14].

Romania has a serious competition, represented by the States in the region, which attaches greater importance to these issues devoted to foreign investors.

## RESEARCH RESULTS

As the main feature of the FDI is the long-term interest of the investor directly in a direct investment undertaking, the OECD and the IMF consider that the FDI flow only the capital that is provided by the foreign investor either directly or effectively Indirectly – through investor-related enterprises. Thus, the sources of capital for the foreign direct investment, which also give their composition, are:

- Holdings of the foreign investor to the capital of the direct investment undertaking for the creation or development of an investment in the host country – include capital held in branches, shares held in subsidiaries and ASOCIATE<sup>47</sup> firms, as reverse and cross-holdings (for example, the shareholding held by a subsidiary in the capital of the parent company). This means that the foreign investor considers the country that will become the host of its investment sufficiently attractive to meet its development needs, and is willing, in order to exploit them, to create jobs and to develop a production capacity.

- Reinvested profits, generated by the profit that the investment brings to the host country and which the foreign investor decides to reinvest in order to further stimulate the development of the ISD enterprise – Include the part of the income that is due to the foreign investor, according to its equity shareholding, which is not distributed to it as dividends by branches or associated companies, as well as the revenues of the unissued branches of The higher the part of the profit for reinvestment is greater than that which is distributed in the form of dividends, the more profitable we can consider business, and the economic environment is attractive enough to allow business development [6].

- Short-and long-term credits granted within the company, between the parent company and affiliated undertakings, in order to support the development of the firm in the host country [4].

Unfortunately, however, Romania loses its attractiveness for foreign investors after the year 2009, in the context of national economic and political turmoil and the effects of the global financial crisis, which are also beginning to feel in the region. FDI are decreasing drastically and are almost three times smaller in the year 2009 than a year ago, similar to the situation in Hungary and Bulgaria. By far, however, the weakest year for FDI after 2008 for Romania was 2011, in which FDI flows were more than 5 times lower than those in 2008 [7]. Worrying for Romania is the low level of FDI flows and in the period up to 2015, FDI streams in 2015 with only the value of 3.05 MIL. EUR, but amid a slightly ascending trend after 2011. It is worth noting that Romania and Bulgaria are, in almost the entire period under consideration, the sub-forms of the region, the two economies attracting on average FDI streams 3 times smaller (Bulgaria) and 2.3 times lower (Romania) compared to Poland, but also 1.8 times lower (Bulgaria) and 1.35 times lower (Romania) compared to the Czech Republic. At the average level, Romania is, however, comparable to Hungary – the average FDI flows were 3.88 BIL. EUR in Hungary and 3.5 BIL. EUR in Romania-but their volatility over the period 2003-2015 was slightly higher in Romania [13].

## CONCLUSIONS

The FDI's contribution to the growth and economic development of Romania over the last few years is undeniable, through the contribution to technological development, increased exports, imports of know-how.

Romania's opening for FDI begins in the years 2000 – the years of great privatization, so that later foreign investment is encouraged by a good journey of the Romanian economy and a favorable external framework, outlined by EU accession forecasts and the start of a global expansion period. The range 2003-2008 is the expansion period of the FDI in Romania, with a volume of streams that increase more than five times. However, Romania loses its attractiveness for foreign investors after the year 2009, as a result of the effects of the global financial crisis. FDI flows drastically and are nearly three times lower in the year 2009 than a year ago. This situation is aggravated by a number of national turbulences at economic and political level, so that FDI flows in the year 2015 fail to exceed the volume of 2004. This is reflected in the stocks of FDI: Romania has the lowest volume of ISD stocks per inhabitant and by reference to GDP at the end of 2015 compared to countries in the region (Bulgaria, Czech Republic, Poland and Hungary). More simply said, we have the weakest performance in attracting FDI, although we have a consistent set of attractive factors for FDI (such as a strategic geographical position, a large market and low labor costs), which we should have Countries in the region.

Romania has captured the interest of foreign investors, who have made new investments here from scratch (Greenfield) – offering jobs, supporting consumption and developing production capacity – including in times of crisis. In addition, long-term

interest in supporting the Romanian economy is proven by concentrating investment in industry (most of the FDI stocks – 45% – were made in this sector in the year 2015). Incidentally, Romania is the country with the largest stock of FDI invested in industry from the five countries analyzed in 2012, year for which the latest comparative data are available.

Companies with foreign capital make more than twice as much investment for each employee and at the same time have double expenditures with each employed person compared to those with Romanian capital. Therefore, the salaries and working conditions offered are better. Not incidentally, the productivity of an employee is twice the size of companies with foreign capital.

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