

FOREIGN DIRECT INVESTMENTS - SUSTAINABLE DEVELOPMENT FACTOR

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Abstract: *Foreign direct investment (FDI) represents a way to supplement domestic sources of financing an economy. It can contribute to the sustainable development of the host country. In the article, we propose to highlight, based on the analysis and synthesis, the positive effects of foreign direct investment that can contribute to the sustainable development of the host country. We will also present the directions where foreign direct investments are needed in Romania to support a sustainable development of our country.*

Keywords: Foreign direct investments, Sustainable development, Economic growth.

JEL Classification Codes: F21, F43, O4.

1. INTRODUCTION

Foreign direct investment is "a type of long-term international investment between a resident entity and a non-resident entity" (the 6th BPM6 International Monetary Fund). This relationship implies that the investor has a high degree of influence over the management of the investee. Foreign direct investment represents one of the ways to finance any economy.

In the article, we first want to clarify the concept of sustainable development in order to determine the implications of foreign direct investment on this type of development. Next, we will highlight the positive effects of foreign direct investments that contribute to the sustainable development of the host country and we will present the directions in which foreign direct investments are needed in Romania to support the sustainable development of our country. We will use analytical methods, interpretations and correlations to draw conclusions on the consequences of foreign direct investment on the sustainable development of the host country.

2. SUSTAINABLE DEVELOPMENT CHARACTERISTICS

The concept of sustainable (sustainable) development has crystallized over time in several international scientific debates. Starting from the awareness that the effects of human activity on the environment influence the economic and social evolution of countries and mankind, in 1987, sustainable development was defined as "that type of development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, Brundtland Report "Our Common Future", p 26).

The key issue of sustainable development is the opposition between the needs of population growth and the limits imposed by planet resources, as well as the continuing degradation of the environment.



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Sustainable development is defined by a number of issues, including: compatibility between the anthropic environment and the natural environment; equal opportunities between generations that coexist and succeed in time and space; putting ecology in the foreground instead of maximizing profits; the compatibility of national development strategies with the requirements of geo-economic and environmental expansion of interdependencies; ensuring general well-being, focusing on the quality of sustainable economic growth; the transition to a new strategy with a natural-human face, in which the objectives of economic and social development are subordinated both to human development and to the remedy of environmental problems.

Based on this premise, for the developed countries, the depollution problem, improving the quality of life etc. is a problem of transformation, adaptation and modernization. To change the type of economic growth in these countries, there is technology and resources.

For poorly developed countries, the problem is sometimes in terms of survival and not in improving the quality of life. Given that the low growth rate in these countries does not release the funds needed to invest in clean technology, foreign direct investment appears to be the only way to put these underdeveloped economies on a sustainable development path.

The concept of sustainable development is based on three pillars, which constitute objectives to be achieved. Each of these pillars can be characterized by several elements as follows:

- economic development: efficiency, growth, stability;
- social development: living standards, equity, social dialogue and delegation of responsibilities, protection of culture and heritage;
- environmental / environmental protection at local, national, regional and global level: conservation and protection of natural resources, biodiversity, pollution prevention.

The main directions for action in order to achieve sustainable development are: poverty eradication; changing patterns of production and consumption to increase efficiency; protecting health, and protecting and managing the natural resource base for economic and social development.

In addressing sustainable production and consumption, it is very important to focus on business empowerment, along with civil society awareness, but also on the inclusion in government strategies and policies of the concept of sustainable production and consumption.

An important aspect of sustainable development is energy independence. Ensuring state energy security by diversifying sources of import and developing own resources, including alternative energy, represent a necessity of national interest. Solving this problem is not only economic but also of a political importance. Taking in consideration the above, it can be concluded that sustainable development will become a constant of the economic and social policies of each state. Its purpose is the good of man, individually and collectively, his material, cultural prosperity, as well as his physical and mental health.

Given that foreign direct investment through its effects influences more attributes of sustainable development, including the quality of life in the host country, economic growth, but also the manifestation of fairness between the host country and the country of origin of the foreign direct investment firms, we can consider foreign investment as a promotional tool of the host country.

Next, we will develop this idea by showing the levers where foreign direct investment influences sustainable development in the host country.

3. EFFECTS OF FOREIGN DIRECT INVESTMENT ON THE SUSTAINABLE DEVELOPMENT OF THE HOST COUNTRY

In order to highlight how foreign direct investment influences sustainable development, we start with the three pillars of sustainable development: economic development, social development and environmental protection.

Foreign direct investment can contribute to stimulating economic growth in the host country, at the country level as well as at regional level, with the effect of reducing development gaps between regions, increasing competition, supporting innovation, increasing competitiveness and increasing labor productivity and resource efficiency by increasing demand for local producers as a result of the contribution of modern technologies, machinery, equipment, production and marketing processes; the transfer of managerial techniques, good practices, accounting regulations.

The economic growth of the beneficiary country of foreign direct investment is also supported by the increase of revenues to the state budget due to the widening of the tax base as a result of business development. Also, FDI in-flows can stimulate the achievement of the external balance by increasing domestic production and implicitly, increasing exports, with effects on the improvement of the trade balance of the host country. Foreign direct investment represents a way of balancing the external balance of payments directly.

Foreign investors support the development of the host country when reinvesting as much as possible high profits. Foreign direct investment can help improve the quality of goods and services obtained in the host economy, their degree of processing, diversification and increase of their added value, by increasing competition on the internal market of goods and services. In addition, foreign investors facilitate domestic products access to foreign markets. Foreign direct investments are considered to be more stable capital flows than portfolios because they do not leave the country immediately when a turbulence occurs, which provides the premises for a sinuous evolution of the economy. Foreign direct investment can also support social development in the host country by creating jobs, by improving the level of professional training, which contributes to the development of human resources, raising the employment rate and the standard of living, but also improving the economic efficiency. It is also possible to invest in the health system with effects on the improvement of the standard of living, and implicitly of the social development. Foreign direct investment enterprises also influence the third pillar of sustainable development, namely environmental protection, through the adoption of measures against pollution and the use of clean and resource-efficient technologies.

Starting from the importance of energy independence in ensuring sustainable development and taking into account the fact that foreign direct investment can be made in the development of alternative energy sources but also in the development and streamlining of electricity distribution grids and in the exploitation of indigenous resources for energy production, we find that foreign direct investment can support the sustainable development of the host country on this level as well.

Starting from the idea that the attitude of man towards sustainable development depends on culture and living standards and taking in consideration that foreign direct investment can have the effect of increasing the standard of living of the population in the host country, we find another argument in favor of the claim that foreign direct investment can be a factor supporting sustainable development.

Foreign direct investment is an alternative method for external borrowing. Stopping external debt growth is one of the objectives of sustainable development. Thus, through the use of foreign capital in the form of foreign direct investments instead of those in the form of foreign loans, sustainable development is supported.

By synthesizing, we find that there are several directions to which foreign direct investment can be directed and which at the same time support more pillars of sustainable development:

- improving energy efficiency and harnessing renewable energy resources both to increase competitiveness and reduce environmental damage;
- developing infrastructure and means of transport to improve the standard of living (by increasing traffic safety), the business environment, economic efficiency, and reducing environmental pollution and regional disparities;
- developing the rural economy and increasing productivity in the agricultural sector, with a view to ensuring food security and safety without compromising the requirements of maintaining soil fertility, preserving biodiversity and protecting the environment, but also for the purpose of economic growth and improving the standard of living of the population;
- the development of disadvantaged regions in order to increase economic growth and improve the standard of living of the population;
- the development of tourism in view of the protection and promotion of the national natural and cultural heritage;
- supporting scientific research, technological development and innovation for the purpose of economic growth and improving the standard of living of the population;
- technology transfer for the purpose of introducing eco-efficiency criteria in the production of goods and services.

We can conclude that foreign direct investment is a factor of utmost importance for sustainable development through its vast, positive implications on all components of this type of development.

4. FOREIGN DIRECT INVESTMENTS - A FACTOR OF SUSTAINABLE DEVELOPMENT IN ROMANIA

For Romania, as a member state of the European Union, sustainable development is not an option but an obligation of national becoming, in order to implement a new paradigm of development through the confluence of the economic, social and environmental factors. As a result, in 1997, the National Center for Sustainable Development, under the aegis of the Romanian Academy, was established, whose aim is to identify Romania's sustainable development priorities and to propose concrete projects at national and local level in order to achieve these priorities. In 2008, the National Strategy for Sustainable Development was approved for the period 2013-2020-2030, aiming at the significant rapprochement of Romania with the average level of the European Union countries to the main indicators of sustainable development foreseen in the Union's Revised Sustainable Development Strategy of the European Union since 2006, through a medium and long-term accelerated development in all three key components (economic, social and environmental). Among other sources of funding to implement the objectives of this strategy, foreign direct investment is foreseen.

In addition, Romania's sustainable development strategy includes specific problems and concerns of Romania (agricultural property structure, access to drinking water and sanitation, transport infrastructure, energy efficiency and consumption of resources relative to GDP, labor productivity, state general health, quality of vocational training etc.).

In 2013, the Department for Infrastructure and Foreign Investment Projects was set up with an important role in promoting the Romanian investment environment in international business environments.

The department identifies the investment opportunity in both the private and public sectors that it presents to foreign investors. The Department for Infrastructure and Foreign Investment projects also has other tasks as:

- examines the proposals of foreign investors;
- provides assistance and consultancy to foreign partners;
- evaluate investors' reactions;
- concludes conventions and agreements with institutions and specialist firms from other countries.

In this context, we believe that in our country, foreign direct investment is needed to support sustainable development in several specific directions that will be presented below.

In the Romanian economy, it is vital to attract foreign direct investment in areas that deliver high value added (automotive, electronics, pharmaceutical), cost-effective and high-tech (telecommunications and IT etc.), focusing on the use of renewable or recyclable resources to support economic growth (by increasing the technological level of production, specialization in high-tech areas, improving the quality of goods and services produced in the economy), but also the efficiency energy and resources.

We believe it is necessary for Romania to be part of energy routes, to have access to resources.

In industry, it is important to focus on renewing the technology base, respectively endowment with medium and high complexity technologies with important driving effects and which can make a substantial contribution to increasing the volume and efficiency of exports, adaptability to market requirements.

Thus, through the in-flows of foreign direct investment, labor productivity can be increased on the whole economy (GDP per person employed), but also at sectorial enterprise level (gross value added per employee), as well as improving the resource efficiency, which are the main determinants of efficiency and competitiveness and implicitly, the sustainability of economic and social development, as well as environmental protection. In addition, it is desirable to attract foreign direct investments in areas where Romania has comparative advantages in order to capitalize and in areas of national interest. Such an area is represented by agriculture whose development, especially of organic products, is desirable to capitalize on the comparative advantages of our country (high quality agricultural land and productivity). Foreign direct investment can also support the modernization of agriculture and increased yields in this sector. The development of irrigation systems, the development of farms equipped with modern agricultural machinery, the use of fertilizers that are a little harmful to life and the environment can contribute to the development of agriculture in our country, especially of eco-agriculture, but require investments that cannot be fully covered by domestic capital.

Another area of national interest for Romania is tourism. Therefore, attracting investments to preserve the natural environment, protect monuments and sites of historic or cultural heritage, preserve the specifics of local products and technologies, offering various incentives to revitalize traditional Romanian businesses, are actions that support the sustainable development of our country. Romania benefits from natural conditions, but also from particularly attractive anthropic monuments. However, access must be ensured through the development of transport infrastructure. Receipts from tourism services are sources of tax revenues to the state budget, as well as capital in-flows that contribute to balancing the external balance of payments.

The attraction of foreign direct investments for the development of local economies (trade, construction, transport, public catering, small and craft industry) conduct to new jobs, but also regional development, identification of one's own identity and improvement of competitive advantages in high added-value sectors and high quality and cognitive content.

Another sensitive area with important implications on several planes in our country is transport infrastructure. Thus, attracting foreign direct investment to improve the quality of infrastructure is an essential condition for sustaining Romania's sustainable development. Investments in infrastructure modernization will help reduce development disparities between regions by improving access to regional markets; will facilitate the mobility of people between and within regions; will lead to a reduction in freight costs for freight and passengers, increased efficiency of economic activities, energy and time savings, creating conditions for expanding trade and productive investment. At national level, building a modern transport network is a vital factor for locating companies, improving the business environment and encouraging tourism.

We find that FDI flows have had positive effects in Romania in some areas, in terms of labor productivity and the level of workforce training.

Maintaining a higher investment rate than that in mature economies in the European Union is absolutely necessary for Romania to achieve convergence in real terms and to achieve sustainable economic growth.

Next, we present the evolution of net foreign direct investment in Romania in the period 2009-2017 (figure 1).

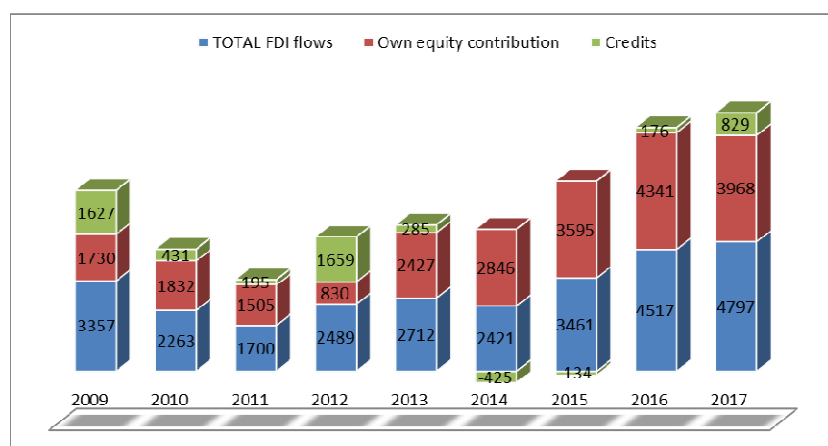


Figure 1. Evolution of direct foreign flows between 2009 - 2017- million euro

Source BNR: <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>

Regarding the evolution of the net FDI in-flow in 2017, it can be seen in figure 1 that it recorded 4797 million euro, represented as follows:

- 3968 million euro in own capital (the level resulting from the sum of 2235 million euro in own equity capital of FDI enterprises, with reinvested earnings in FDI enterprises amounting 1733 million euro);
- 829 million euro net credit from foreign investors.

Concerning the foreign direct investment balance, we note in figure 2 that it reached 75851 million euro on 31 December 2017, of which: 52746 million euro of equity, including reinvested earnings (69.5 percent) and 23105-million-euro net credit received from foreign investors (30.5 percent). The distribution of foreign investments on the main economic activities is shown in the graph below. Thus, we observe that of the total economic activities, the largest share is the processing industry, which represents 32 percent, followed by construction and real estate transactions 15.3 percent, trade 13.8 percent and financial intermediation and insurance 12.4 percent.

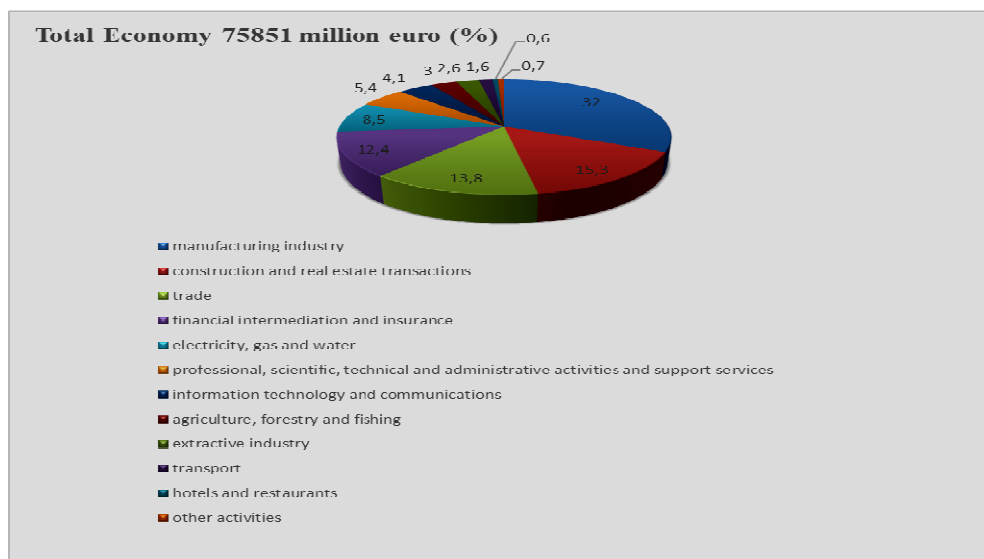


Figure 2. Distribution of foreign direct investment on the main economic activities

Source BNR: <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>

We report below in figure 3, according to the NBR, the top 10 countries ranked on the FDI balance as at 31 December 2017. These are: the Netherlands (25.9 percent of the FDI balance at the end of 2017), Germany (12.8 percent), Austria (6.2 percent), France (6.2 percent), Italy (6.2 percent), Cyprus (6.1 percent), Luxembourg (4.7 percent), Switzerland (4.1 percent), Greece (2.3 percent) and Belgium (2.1 percent). The distribution was based on the country of residence of the direct holder of at least 10 percent of the share capital of the direct investment enterprises in Romania.

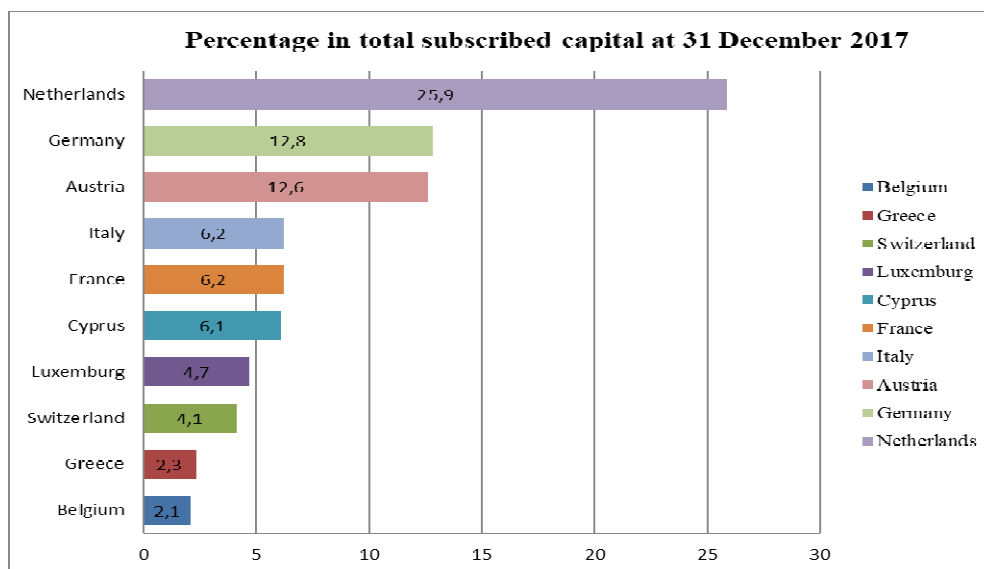


Figure 3. Ranking of the first ten countries after participation in the subscribed capital of Romanian companies 2017

Source BNR <http://www.bnr.ro/PublicationDocuments.aspx?icid=9403>

5. CONCLUSIONS

Starting from the purpose of sustainable development, which consists in the human well-being, individually, and collectively, its material and cultural prosperity, as well as its physical and mental health, we observe that the effects of foreign direct investments mainly affect the very purpose of sustainable development.

It emerges from the analysis that foreign direct investment has the potential to promote sustainable development through the broad implications of all components of this type of development, foreign direct investment can influence the sustainable development of the host country positively as their effects on the standard of living of the host country's population, its health, the environment in which it lives, are beneficial, as economic growth does.

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