TRENDS IN THE EVOLUTION OF FOREIGN DIRECT INVESTMENT – ROMANIAN CASE

Marius Daniel STĂNESCU[1], Daniel GUÇE [2]

[1] University of Craiova, stanescu.marius@gmail.com
[2] University of Craiova, guce.daniel@gmail.com

Abstract: *Foreign direct investment (FDI) represents one of the ways to finance any economy. In the study we approached the theme from the point of view of the evolution of foreign direct investments in Romania. Using analytical methods, interpretations and correlations, we drew conclusions on the categories of foreign direct investment, net foreign investment flow and the balance of foreign direct investment. Last but not least, we analyzed the relationship between FDI and GDP as one of the main macroeconomic indicators of the result, highlighting the percentage and trends of foreign direct investment in GDP in Romania between 2000 and 2018. We also high lightened the directions where foreign direct investment is 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

For international investors, foreign direct investment plays an extremely important role, the growth of emerging markets was largely due to foreign direct investment. At the same time, companies investing abroad can achieve higher growth rates and diversify revenues which creates opportunities for investors. An increasing importance is given today to the problem of foreign direct investment (FDI), these being seen as the main factor of stimulating the economic growth.

A key advantage of foreign direct investment is economic growth. Countries that receive foreign direct investment are often facing greater economic growth by opening up to new markets, as seen in many emerging economies.

Theoretically, any government should be interested in attracting foreign direct investment. They can generate new jobs, bring new technologies and, as a whole, encourage economic growth and employment. The net surplus recorded by the domestic income is divided with the public sector, by taxing the salaries and profits generated by the multinational companies, as well as other taxable objects (property taxes, for example).

Foreign direct investment (FDI) can positively affect domestic income through spillover effects, by introducing new technologies an qualification of the workforce. Given these potential benefits, public decision makers are constantly re-examining tax rules also in order to be attractive to investors Kucera (2017).

A major concern at the level of the states has become the attraction of foreign direct investments, this concern being based on the presumption that the flows of foreign direct investments benefit the country of destination. It can be specified that Gross Domestic Product (GDP) contributes to the gross formation of fixed capital (total investments in the host economy) and to the balance of payments. Over time, there has been a positive connection between the higher level of GDP and the FDI inflows.

In the first part of the article we will review the theoretical notions related to macroeconomic variables, topical elements and theoretical considerations regarding the evolution of foreign direct investments in Romania. In completing the article, we highlight the trends in the evolution of FDI and the relationship between foreign direct investment and gross domestic product (GDP) as an indicator of measuring economic growth in Romania.

2. CLASSICAL AND CONTEMPORARY THEORIES OF ISD

In the first half of the nineteenth century, economics was regarded by classical economists as a science that analyzes human behavior as a relation between the purpose of actions and the (limited) means and resources used to achieve goals. The classical economic theory dealt with both macroeconomics and microeconomics, whereas neoclassical economic theory (the one after 1870) was essentially oriented towards microeconomics. With Keynes, macroeconomics was reinstated in natural rights, yet it went to the other extreme, macroeconomics tending to be a priority over microeconomics. Modern economic theories - rational expectation theory, monetarism, welfare theory, neo-Keynesian theory - equally analyze both macroeconomic and microeconomic processes.

Classical economists pointed out that economic science relies more on assumptions derived from observable laws of production than from an introspective, analytical process. Adam Smith (1776). The variables analyzed (such as the supply of entrepreneurial activities, the technical progress in agriculture or the tendency to limit the number of children by the workers' households) were essentially exogenous, predetermined, independent. But on the economy one cannot intervene by exogenous measures, the market being the one that regulates the economic processes and phenomena.

The neoclassical economy has been focused mainly on analyzes in the field of microeconomics, and the most important results are the elaboration of the perfect competition model and the marginalist revolution. Another essential contribution of neoclassics is the development of static analysis.

Dunning's eclectic paradigm explains that location was the key factor to affect the performance of a foreign investment. The mainstream theory of location refers to the firms need to use jointly with their competitive advantages, favor a presence in a foreign location, the more firms will choose to augment or exploit their specific advantages by engaging in FDI (Dunning, 2000).

The results of the activity at macroeconomic level in a given period, usually one year, obtained by all the economic agents in the national economy, are reflected numerically and quantitatively by synthetic indicators. Regardless of the nature of results (tangible goods and services) and flows in the national economy, these indicators are calculated only in terms of value, through prices and tariffs. Depending on the purpose pursued, they can be evaluated at market prices (buyers 'prices) or at the prices of production factors (manufacturers' prices).

In the economic literature, it is difficult to draw a clear demarcation line between the entrepreneurial climate or the business environment and the investment climate or environment, because investments are the essence of any business, and the ultimate goal of an investment as well as any business itself is to obtain profit, in parallel with the fastest recovery of the investments made. Investments are the main way of developing or at least maintaining the productive force of an enterprise, implicitly of an economy, considered as an aggregate of all economic subjects. If an enterprise registers a growth rate lower than the average on its reference market or in its specific activity, in the medium and long term it results in the bankruptcy of the respective company, as a result of the progressive loss of customers, market share, competitiveness, and through analogy if an economy slows the pace of investments, implicitly slows economic growth or may even result in a decrease in real gross domestic product (GDP).

According to Fallon et. al (2001), the investment is dependent on saving and requires a certain temporal approach to consumption. Time makes the difference between consumption and investment, in the sense that the ability to invest is given by the ability to sacrifice some of the present consumption for future, possible and uncertain consumption and permanently differentiates the investment saving, the first being only a deferred consumption, while the investment is a long-term consumption or even sacrificed in order to obtain a greater future consumption. The real character of the economic phenomenon is another essential aspect, the consumption is a devourer of the material goods, while the investment generates more special goods, such as the technologies, the manufacturing lines, etc.

3. THE ORIGIN, STRUCTURE AND EVOLUTION OF DIRECT FOREIGN INVESTMENTS IN ROMANIA

Investments in the national economic literature are conceptually structured by two major meanings or in other words, the notion of investment has two spheres of significance, one more represented by financial investments and the other more restricted by capital investments. “Financial investments involve transactions and consist of any capital investment made in order to obtain dividends, interest and profits, respectively, from the purchase of funds for the initiation of business” (Vasilescu, et al., 2000) that is, the totality of expenditures and allocations of funds from which future revenues are expected, with a different typology: the technical investment, regarding the acquisition, construction and assembly of fixed assets; human and life investment of employees; financial investment, consisting of the purchase of equity securities in other companies; commercial investment, for advertising.

In this case, the investor is in possession of specific assets: shares, bonds, certificates of deposit or treasury bills, etc. Capital investments mainly represent the acquisition of new fixed assets being real and directly related to growth and development, Kozhevnikov et al. (2017). Bringing together the expenditures that are made for obtaining fixed assets, that is, for the construction, reconstruction, enlargement, modernization, and acquisition of fixed assets of the nature of buildings, cars, machines, installations, means of transport, factories, transport companies, hotels, shops.

In the last two decades, Romania has evolved steadily in the direction of an investment-based economy (with inherent ascending oscillations, in periods of economic and downward progress, in crises or recessions), analyzing in parallel the percentages in GDP, resulting from the gross formation of capital (GFC), gross fixed capital formation (GFCF) and gross domestic savings (GDS).

Table 1. Annual evolution of GDP quotas of GFC, GFCF și GDS in Romania

Year	Gross capital formation (% of GDP)	Gross fixed capital formation (GFCF)	Gross domestic savings (GDS)
1990	30.20	19.80	20.80
1991	28.00	14.40	24.10
1992	31.40	19.20	23.10
1993	28.90	17.90	24.00
1994	24.80	20.30	22.70
1995	23.60	21.40	18.60
1996	23.40	23.20	15.60
1997	21.50	22.00	14.70
1998	18.50	18.90	10.70
1999	15.90	18.30	11.40
2000	19.80	19.30	14.50
2001	22.60	20.90	15.00
2002	22.50	21.70	16.90
2003	22.70	22.30	15.30
2004	24.30	22.40	15.30
2005	23.90	24.30	13.80
2006	27.20	26.40	15.30
2007	31.30	36.00	17.00
2008	33.40	38.40	20.20
2009	27.10	26.00	20.70
2010	26.80	25.90	20.70
2011	27.90	27.10	22.30
2012	26.80	27.30	21.90
2013	25.60	24.70	24.80
2014	24.70	24.30	24.30
2015	25.20	24.70	24.50
2016	25.00	22.70	24.10
2017	24.70	23.40	24.30
2018	25.20	24.70	24.00

Source: http://data.worldbank.org/data-catalog#Tables

Analyzing in parallel, the level of the same indicators at European and global level is much less volatile and more homogeneous, placing itself as any average value in an internal area of extreme particular values (maximum and minimum), but in a much longer range. reduced variation.

Table 2. Annual evolution of GDP quotas of GFC, GFCF și GDS, in European Union and World Economy

Year	European Union			World economy		
	Gross capital formation (% of GDP)	Gross fixed capital formation (GFCF)	Gross domestic savings (GDS)	Gross capital formation (% of GDP)	Gross fixed capital formation (GFCF)	Gross domestic savings (GDS)
1990	24.60	23.80	24.10	2580	24.10	25.70
1991	23.40	23.00	23.10	25.20	23.50	25.10
1992	22.30	22.20	22.20	25.00	23.50	25.30
1993	20.70	20.90	21.70	24.70	23.70	24.80
1994	21.10	20.90	24.40	24.70	23.60	25.20
1995	21.50	20.80	22.90	24.70	23.30	25.10
1996	21.20	20.90	22.60	24.50	23.50	25.10
1997	21.30	20.80	23.00	24.60	23.40	25.20
1998	22.00	21.30	23.20	24.20	23.60	24.90
1999	22.20	21.80	22.90	23.90	23.40	24.80
2000	22.90	22.10	23.10	24.30	23.50	25.30
2001	22.20	21.70	22.90	23.80	23.30	24.50
2002	21.40	21.10	22.70	23.20	22.70	24.20
2003	21.30	20.90	22.30	23.80	23.10	24.70
2004	21.50	21.00	22.60	24.60	23.60	25.60
2005	21.70	21.30	22.50	24.80	24.00	26.00
2006	22.60	22.00	23.10	25.30	24.40	26.90
2007	23.30	22.60	24.10	25.70	24.50	26.10
2008	22.90	22.40	23.20	25.50	24.40	23.90
2009	19.70	20.40	20.70	23.30	23.50	24.80
2010	20.40	20.00	21.20	24.20	23.10	24.90
2011	20.80	20.10	21.80	24.50	23.30	24.80
2012	19.60	19.70	21.50	24.30	23.50	24.80
2013	19.30	19.20	21.80	24.20	23.50	24.80
2014	19.70	19.30	22.40	24.40	23.60	24.90
2015	19.80	19.50	23.20	24.20	23.50	24.90
2016	20.00	19.70	23.20	23.80	23.20	24.50
2017	20.80	20.10	21.80	24.50	23.30	24.80
2018	20.00	19.50	23.20	24.20	23.50	24.90

Source: http://data.worldbank.org/data-catalog#Tables

If all these correlated investment indicators are confronted, it can be seen that from the point of view of descriptive statistics, the differences in world, European and national dynamics are quite large, Romania having a much more heterogeneous evolution caused by the transition to the market economy (under the downward impact of saving and investing specifically for the restructuring and privatization of the first decade and ascending during the pre-accession period and immediately after the accession to the European Union).

The growth of investments, especially of foreign ones, around the accession to the U.E. and immediately after, it is another phenomenon specific to Romania, as well as to the other countries in the central and east-European area, whose people are practically in the same situation, after 1989. Considered as a whole of the real national economy, many of the investments in Romania belong to the real estate sector, retail and the production of cars (considered fixed assets), and this aspect had and has many negative practical implications, leaving behind many unresolved issues related to gaps in development of production factors, especially in infrastructure and human resources education.

National investments are the most volatile component of the macroeconomic result, of the GDP frequently, followed by the direct investments of the portfolio, while the foreign direct investments constitute the more stable component and they respond practically to many more determinative variables being conceived in the term.

3.1. Categories of foreign direct investment (FDI) in Romania

Between 2007 and 2018, the volume of FDI increased significantly in Romania. This fact is explained, on the one hand, as a result of the quasi-non-existent FDI level at the beginning of the transition period and, on the other hand, due to the earning opportunities that foreign investors could use in Romania, either through investments of greenfield type, either through purchases (mergers and acquisitions) or portfolio investments in the capital market.

Regarding the typology of foreign direct investments, we can differentiate them according to the contribution of the flow of foreign equity investments in foreign direct investment enterprises, thus we can highlight greenfield investments, characterized by the establishment of companies by or together with foreign investors (investments started by zero); Mergers and acquisitions, full or partial takeover of enterprises by foreign investors from residents, business development: increase of foreign ownership of foreign investors in foreign direct investment and restructuring of enterprises: financing by foreign investors, through capital contribution, of foreign direct investment companies with losses, in order to make them profitable.

The balance of foreign direct investments as at December 31, 2018 reached the level of 81.12 billion Euro (compared to 75.85 billion Euro at the end of 2017), of which almost 57.48 billion Euro - equity, including reinvested profit (70.85 %) and about 23.65 billion Euro - net credit received from foreign investors (29.15%).

The net flow of foreign direct investments (FDI) in 2018, registered a value of over 5.26 billion Euro, according to the data published by the National Bank of Romania.

They show that, out of the total FDI, about 5.54 billion Euro represented equity investments (level resulted by adding the contribution to the capital of the FDI companies, amounting to 2.97 billion Euro, with the profit reinvested in the FDI companies, in value of 2.57 billion Euro) and 280 million means a net loan from foreign investors (the value of the net credits received from the foreign investors was lower than the value of the net credits granted to them).

Greenfield investments and mergers and acquisitions investments have followed the trend of recent years, recording a very low level. The contribution of foreign investors to the capital of newly established FDI companies (greenfield investments) was only 43 million Euro, and the contribution to the capital of companies acquired through mergers and acquisitions was 165 million Euro.

According the thee above study, we can point out that the predominant share in the capital contribution in 2018 is provided by the restructuring of companies with a value of 1.719 billion Euro, representing 58% of the total capital contribution of 2018 and by the business developments with 1.046 billion Euro, respectively, 35% of the total contribution.

Regarding the balance of foreign direct investment, it is found that 63% of the total, worth 51.150 billion Euro, are realized in the companies set up by greenfield investments. This highlights the impact of greenfield investments over the economy. From the point of view of the distribution of the main economic activities, foreign direct investments in greenfield enterprises mainly focused on the processing industry (28.9% of the FDI balance in greenfield enterprises).

These investments have a significant share on real estate transactions (19%), trade (17.6%) and financial and insurance intermediaries (9.3%). Most of the foreign direct investments in greenfield companies are concentrated in the Bucharest-Ilfov region (61.2% of the FDI balance in greenfield enterprises), according to the source cited. This shows that the Center region follows, with 11.3%, the West region with 10.1% and the North-West with 6.1% of the FDI balance in greenfield businesses.

The largest investments in greenfield businesses come from the Netherlands, as in the case of the total FDI balance (21.4%). The following countries of origin are Germany (17.7%), Austria (9.3%) and Italy, with 8.4% of the FDI balance in greenfield enterprises.

3.2. The net flow of foreign investments and the balance of foreign direct investments in Romania between 2007 and 2018

After 2008, strongly influenced by the redefinition of global economic parameters with direct impact on the growth of foreign capital attracted to the economy, Romania followed the global trend regarding the evolution of FDI.

The small global profits, the reduced access to financing sources, and the prospect of intensifying the crisis, have determined that companies to go for prudence and expectation. Thus, the reduction of resources allocated in the past for development and expansion on foreign markets was directly reflected in a diminished flow of capital placed abroad.

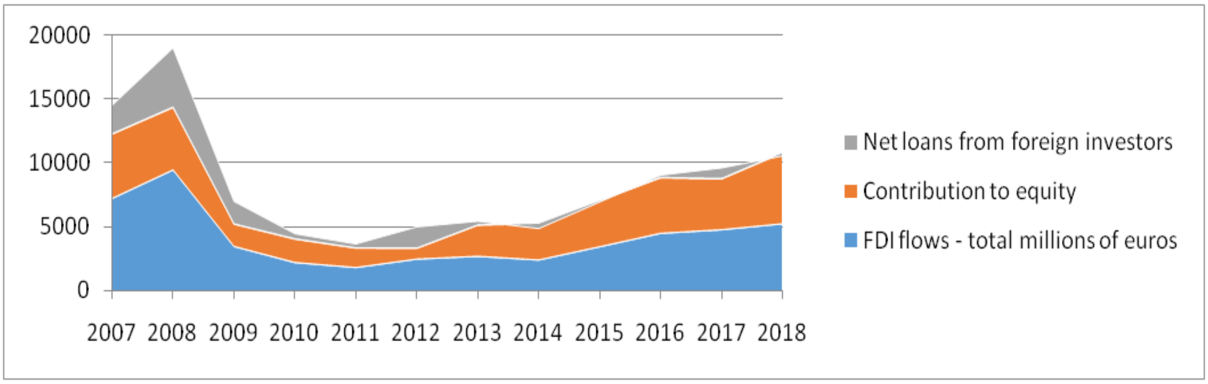
The evolution of FDI in Romania, in the period 2007-2010, as a first step in the post-accession of the national economy to the EU, registered a severe annual decrease of about 50% of the volume of FDI in the years 2009-2010 compared to the previous years. The economic crisis has adversely affected FDI flows to Romania, contrary to the initial forecasts that accession to the European Union and nominal and real integration were considered as a factor for economic growth and a "protective shield" against external shocks. In fact, the crisis has affected not only the Romanian economy, but also that of other EU countries (Zaman Gh., 2011).

Next we show in figure 1 the evolution of the net flow of foreign direct investments in Romania between 2007 - 2018.

Regarding the evolution of the net flow of foreign direct investments in 2018, it can be observed that it has registered the value of 5 266 million Euro, represented as follows:

- 5546 million euros contribution to equity (level resulting from the sum of the investments in the capital of the FDI companies, amounting to 2 973 million Euro, with the profit reinvested in the FDI companies amounting to EUR 2 573 million);
- the net credit from the foreign investors had the value of - 280 million Euro.

Figure 1. Evolution of the flows of foreign direct investments in the period 2007 - 2018 (mill. Euro)

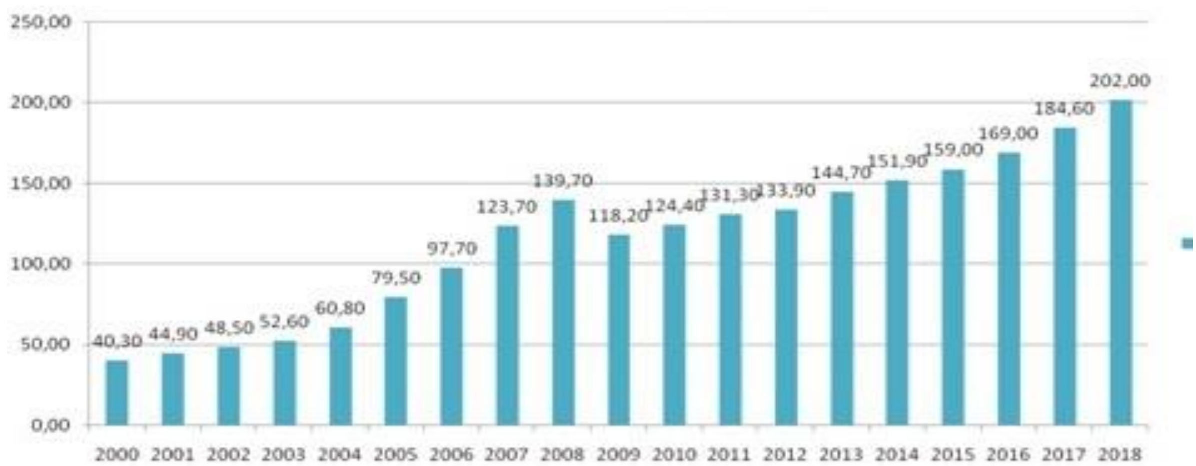


Source: http://www.bnr.ro/PublicationDocuments.aspx?icid=9403

Regarding the macroeconomic side of the economy in the decade following the onset of the global financial crisis, foreign direct investment (FDI) was characterized by a global slowdown and represented a period of large variations in production for most markets, both the developed and the developing ones. Maintaining an investment rate higher than that of the countries with mature economies in the European Union is absolutely necessary for Romania in order to achieve a convergence in real terms, and to achieve a sustainable economic growth.

An analysis of foreign direct investments in Romania as a percentage of GDP is shown in figure 3. For the analyzed period between 2000 - 2018, the average value of the share of foreign direct investments in GDP was 3.72, the minimum percentage was realized in 2011, while the maximum percentage was 8.91 in 2006. At the same time we can observe that the highest percentages were registered in the pre-accession and post-accession period in the European Union. Foreign direct investment (FDI) is reported and measured annually as a percentage of GDP. Normally this value is around two, three percent. If the country usually records foreign direct investments that exceed 5-6% of GDP in annual GDP, then it is a real success.

Figure 2. The evolution of GDP in Romania between 2000 - 2018 (Billion Euro)



Source: http://www.insse.ro/cms/ro/tags/comunicat-pib-anual

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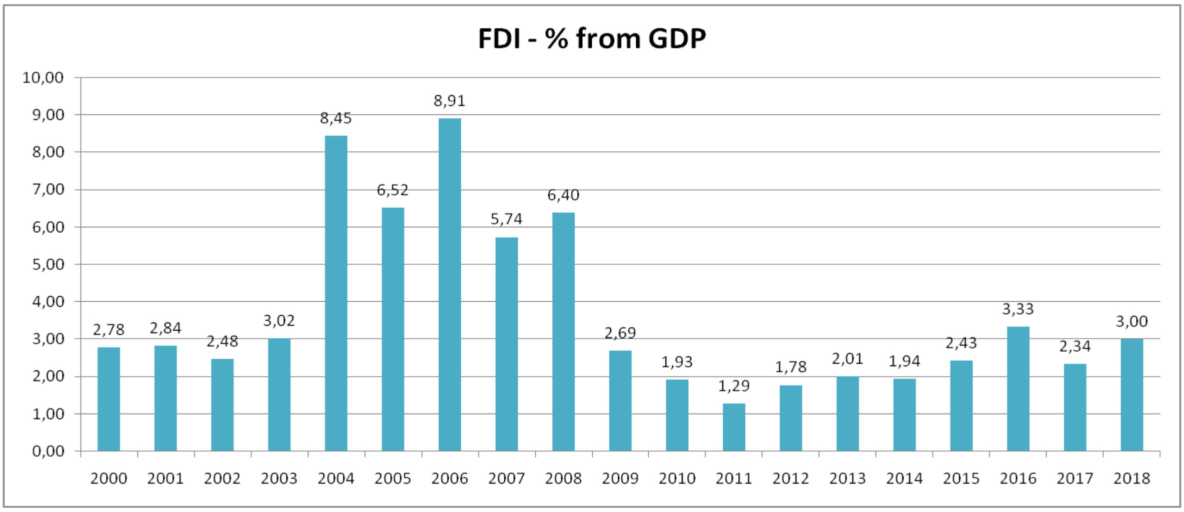
Figure 3. Foreign direct investments - percentage of GDP in Romania between 2000-2018



Source: https://www.theglobaleconomy.com/Romania/Foreign_Direct_Investment/

4. CONCLUSIONS

Foreign direct investment have an important role in stabilizing the macroeconomic processes in Romania and in reviving the economic growth, although the effects of training and propagation have not been fully exploited, with some key points on which further action is required. In order to capitalize on the potential of foreign direct investments to stimulate and intensify the processes of sustainable economic growth and development, they are appreciated as factors for increasing efficiency: stimulating the attraction of foreign direct investments of higher technological level, stimulating the formation of an innovative entrepreneurship, capitalizing on the economic opportunities created by belonging to the European Union - maximizing the absorption of the structural and cohesion funds and their efficient and effective use, contributing in this significant way to the development of the physical and institutional infrastructure, ensuring the sustainability of the system, long-term education and training in order to make labor force more flexible and dynamic.

The effect generated by foreign direct investments is different from one state to another and also depends on the economic potential of the country in question, the regulations on foreign direct investments, the way in which the investments are attracted, this can be a new investment or an increase of the existing foreign capital.

Strategic decisions regarding foreign direct investments should be made according to the "win-win" formula for those who are included in the process of developing FDI, avoiding the opposite "win-lose" option, because the economic and social effect but also the profit made is of interest to both the investor and the host state. In fact, in most cases, the profit repatriated by foreign investors is much higher than the profit reinvested in the host state, thus proving that they have a much greater benefit than the national economy.

It is necessary to carry out activities in order to attract as many foreign investors as possible, which will contribute to the development of investment activities, which will lead to an increase in the number of jobs, population incomes, poverty reduction, as well as registration of superior macroeconomic results.

The impact of foreign direct investment on gross domestic product underlined a positive relationship between these two macroeconomic indicators, which had a positive impact on economic growth. Based on the data analyzed in the researche, we noticed that there is a connection between foreign direct investments and the gross domestic product.

In Romania, in order to increase the investment rate in the medium and long term, an adequate and coherent mix of economic policies must be implemented, within which the policy of attracting foreign direct investments, especially those which can contribute substantially to the development of high value-added domains. Fiscal policies as a part of the fiscal system represent an essential lever, which properly handled can add value and help stimulate foreign direct investments in Romania.

The policy of attracting foreign direct investments is an important part of the development strategies in Romania. By increasing the degree of attractiveness for foreign investors, the premises of increasing the number of jobs, the size of the incomes, as well as the intensification of the transfers of technologies and knowledge are created.

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