FOREIGN DIRECT INVESTMENT SEEN AS A FACTOR OF ECONOMIC GROWTH

Oana Camelia Iacob[1],
Anca Cristea[2]

Abstract: *The overall objective is to identify foreign direct investment as a factor of economic growth in Romania by pinpointing problems for foreign direct investment have increased at a rate similar to that of other Eastern and Central European. Analysis of this problem is a starting point in finding solutions.*

Importance of the work has relevance both in theory and in practice as it can serve several interested groups, investors, and individuals concerned with the welfare of the country.

The paper also can serve nationally, as the basis for making decisions on Europe 2020 targets or national strategies for attracting foreign direct investment.

We choose this topic because we believe that foreign direct investment is an important factor in a country's economy, especially if that country does not have a level of savings so large as to create their own investments. At the market in Romania there are numerous barriers to entry so that foreign direct investors are not attracted by our country in a very large extent; especially because of bureaucracy. The research method is considering an empirical approach based on statistical data of the development implications of foreign direct investment and multinational corporations of the Romanian economy.

Keywords: foreign direct investment; the economical growth; saving; economic decision.

Classification JEL: E22; F21; G11.

1. Introduction

Investments are active factor of economic development and adapt to market requirements, competitiveness, and countries in transition, it conditions for accomplishing the proposed restructuring program of economic reform. When an investment is not financed by the entrepreneur's own forces, it can be supported by the economies of other individuals or companies. Worldwide this action implies that the increase in capital formation to finance through a reallocation of income in the global market, by private or government savings. If a country investment demand is higher than that of domestic savings, then economies in other countries may be transferable to adjust domestic scarcity of financial resources (Anghel, 2002). The conclusion of these actions is that the receiving country can import more than it can pay via exports, which means it has the ability to spend more for the economy and allows the consumer than own revenue. In the economy, a country which meets the above situation means that it has received a net transfer of resources from abroad or the country has achieved a net transfer for savings exceeding domestic demand for investment. Increase of investment is given by proportionally increasing the savings and investment market economy developed countries (Burghelea et. al., 2014).

Foreign direct investment support economic growth, which is performed differently depending on the form it takes foreign direct investment. They also stimulate domestic investment, as local producers will be interested in increasing the efficiency and improving the quality of outputs to face competition due to the presence of foreign investors in the sector in question (Burghelea et. al., 2015). FDI supports the restructuring and privatization; support increased capital investment because foreign investors' access to external sources of capital, but support and increase revenues to the state budget due to the emergence of new taxpayers in the host country's economy. FDI generates positive effects on the trade balance, if the investors directly produce primarily for export or for the

[1] Lector dr., Hyperion University, 169 Calea Călăraşi, Bucharest, Romania, E-mail: oanacamelia.i@gmail.com
[2] Lector dr., Hyperion University, 169 Calea Călăraşi, Bucharest, Romania, E-mail: lcancacristea@yahoo.com (contact person)

production to substitute imports for the domestic market and not least FDI improves the standard of living (Balan et. al., 2013). The implications of FDI positive macroeconomic data, among others: supporting economic growth, determining the positive effects on the balance of payments, increase capital investment, business reorganization. Supporting economic growth on the one hand implies increasing labor efficiency, the emergence of new jobs, and on the other hand, increased competitiveness among economic operators.

2. The evolution of foreign direct investment in Romania, during 2003-2012

To understand the evolution of FDI in Romania during 2003-2012, remember about that "in any innings to 2000 there was a concrete program covering the technology, maintaining production capacity in the industry, at a level more or less acceptable" (Moise, 2005).

In Romania business needs both economic freedom and tax-friendly for foreign investors as well as national ones. The world is fierce competition in attracting foreign direct investment (Montogomery et. al., 1989) and the first condition for achieving this is improving the investment climate; so since 2001 the Government has other priorities besides the economic policy promoted namely improving the legal framework on the promotion of strategies that involve the investment process, assist small and medium enterprises, simplify market access. The government is doing all these things because it is aware that attracting foreign capital and foreign investment is the only real way forward in any economic situation both in Romania and in Europe and in the world (Anghelache, 2003). Since 2003 foreign direct investment shows a positive trend can be explained primarily by the increase in FDI inflows from the European Union since Romania's accession is appropriated to it and secondly because of the economic performance of Romania in the period under review. At the same time increased foreign direct investment and can be put to the fact that foreign investors have viewed the profit opportunities (Ayarwal et. al., 1991) relatively high in the Romanian economy, either as Greenfield investments either through purchase-mergers and acquisitions.

The graph (fig. no. 1) shows developments in FDI inflows in Romania 2003-2012, we analyzed the evolution of FDI flows across the Romanian economy during the period 2003-2012, in terms of net loans (loans from undertaking FDI foreign direct investor or from group of non-resident companies which it belongs. excludes loans undertaking FDI foreign direct investor or another company within the group) and equity (share capital subscribed and paid in both cash and contributions in kind, residents in resident companies and related share in reserves).

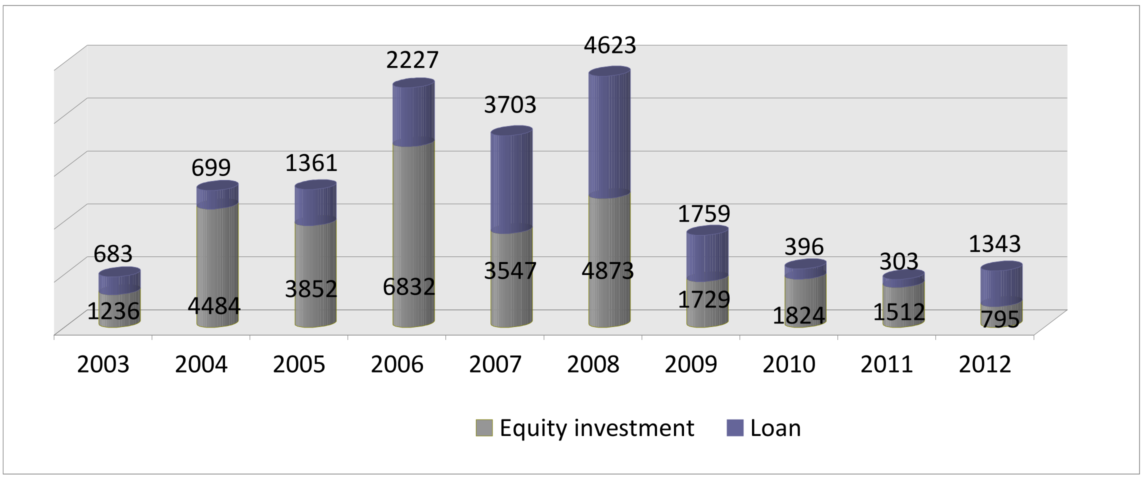

Fig. 1. The evolution of FDI inflows in Romania, during 2003-2012
Source: data from www.bnro.ro

The graph (fig. no. 1) shows that in 2003-2006 foreign direct investment presents a continuous increase is explained by the multitude of privatizations recorded in the banking and industrial sectors, especially in manufacturing (oil and petrochemical, metallurgy, machine building) in Romania. This positive trend is due to the flow of FDI and conclusion of accession of Romania to the European Union in 2004, and ownership of EU integration time in 2007. It is noted that in 2003 was a net outflow of 1.946 billion FDI euros, rising to 9.059 billion euros in 2006, which means that in 2006 compared to 2003, net FDI flows increased by about 78.52%. In the following period, 2006-2008 there is a fluctuation of net FDI inflow, due to the accession to the European Union brought a net inflow of FDI of 7.25 billion euros, and then in 2008 achieves a maximum net outflow of FDI or 9.496 billion euros from the entire analyzed period. In the period 2008-2011 it is observed that net FDI flow drops significantly, so that net FDI flows in 2009 declined by 97.28% over the previous year. This dramatic decrease is attributed to the financial crisis domestic and global. It is noted that foreign investors no longer credited as in previous years, and equity stakes are experiencing a slight recovery, so in 2010 capital assets are 95 million higher, but the net inflow of FDI is still a downward trend until 2012 when it recorded a net outflow of 2.138 billion euros. This downward trend is attributed to the effects of general contraction of external lending due to the global crisis, including deleveraging of parent banks to their subsidiaries in Romania exposure.

In the following chart we look at the stock of FDI in Romania during 2003-2012 in terms of shareholdings and the net credit.

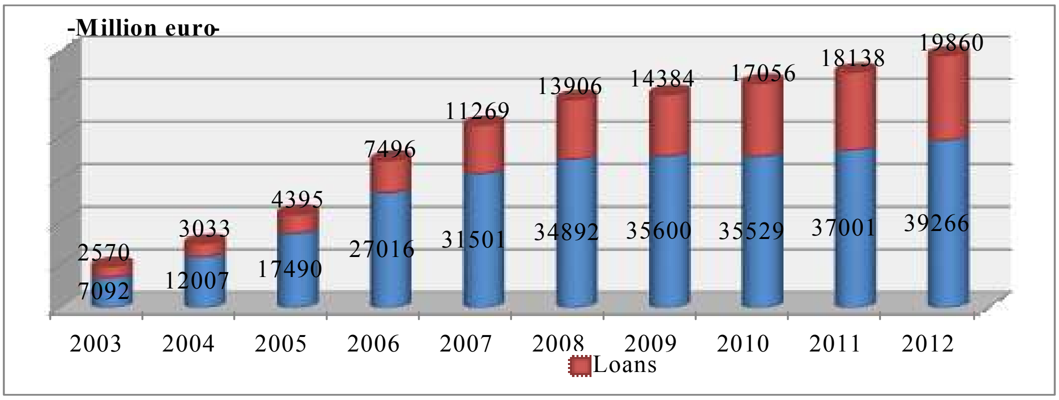

Fig. 2. The evolution of the stock of FDI in Romania during 2003-2012
Source: data from www.bnro.ro

It is seen (fig. no. 2) evolution of FDI stock in Romania, 2003-2012 continued growth of FDI stock in the period, except for 2009 when the effects are felt financial crisis, so if the stock of FDI in 2008 was 48.798 billion euros in 2009 it increased by only 2.43%, and in 2010 has increased by another 2.77 percent. We note that in 2011 there was a decrease of FDI stock, leading to 55.139 billion euros, 4.63% less than the previous year. We can see that despite the contraction of credit as a source of financing for FDI in Romania, so in 2010, 2011 and 2012 represent a third of total FDI, so the absolute value of over 17 billion euros (regardless of the structure of maturity of the loan) reflects a high indebtedness of foreign direct investment enterprises. In the context of domestic and international economic uncertain short and medium term, putting into difficulty the ability to pay foreign investors may lead to liquidation of their activity in Romania, which means massive capital outflows i.e. net flows negative FDI catastrophic on the economy and financial framework of the Romanian currency.

Since we analyzed the evolution of FDI stock in the Romanian economy from 2003 to 2012, I am going to analyze the structure of FDI stock by major economic categories in 2003, the first year of analysis, compared to the last year of analysis and 2012 respectively.

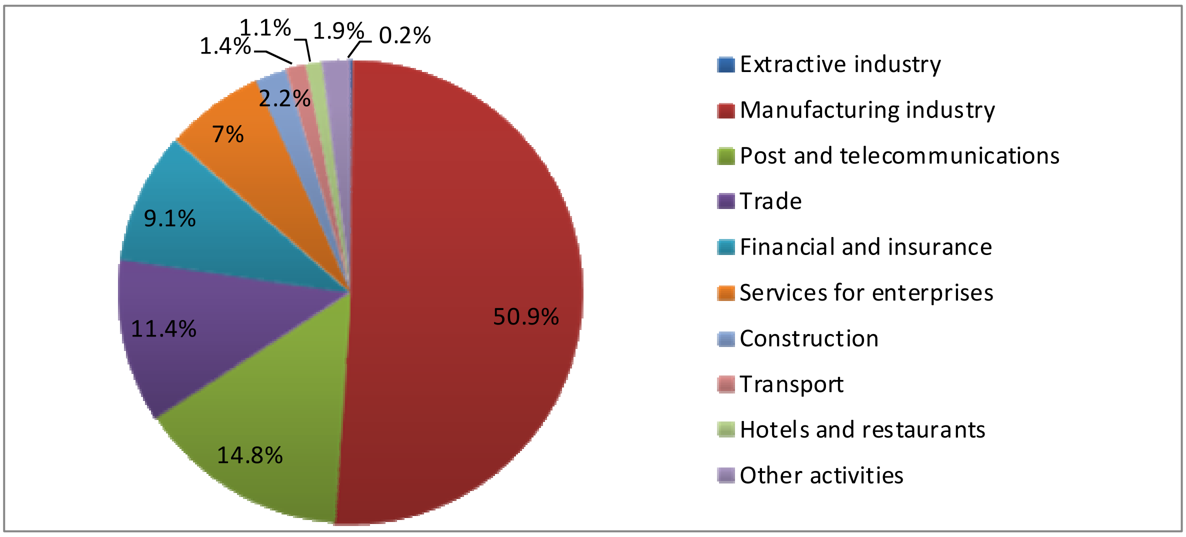

Fig. 3. Structure of FDI stock by main economic activity in Romania in 2003
Source: data from www.bnro.ro

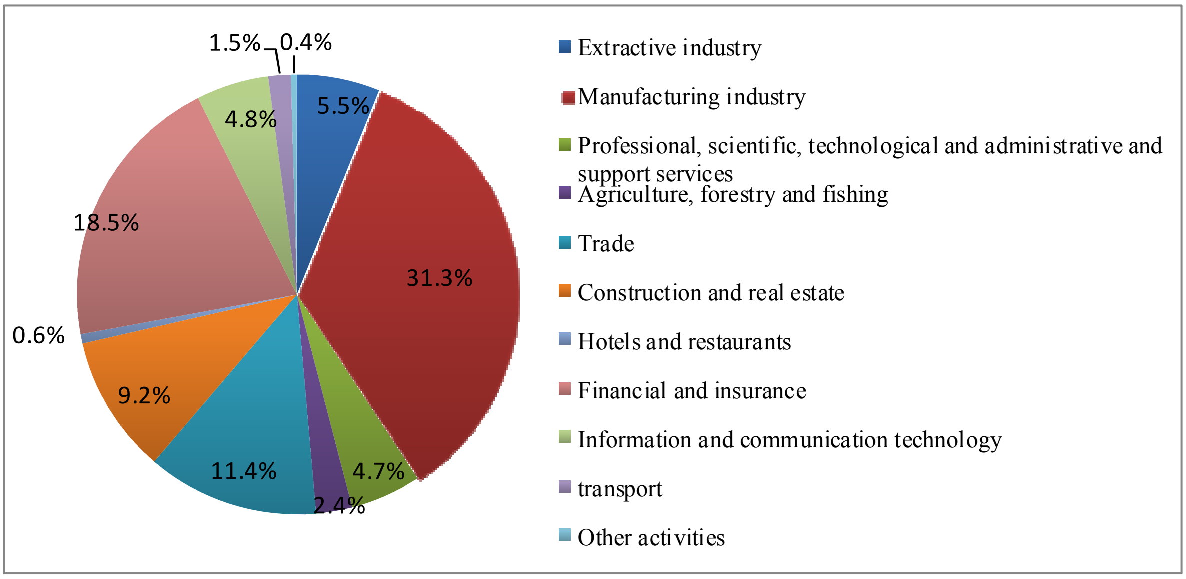

Fig. 4. Structure of FDI stock by main economic activity in Romania in 2012
Source: data from www.bnro.ro

From the two figures (fig. no. 3 and fig. no. 4) there is a change in the structure of economic activities in Romania, in 2012 FDI are spread across several economic sectors compared to 2003 noted that in 2012 FDI is distributed in sectors such as agriculture, forestry and fishing; professional, scientific, technological and administrative and support services. In the common areas we saw that the manufacturing sector has the largest share of FDI stock both in 2003 and in the last year of analysis, although this sector recorded a decrease of 19.6%. This is due to the events that took place over the 9 years of analysis, the 2008 economic crisis having a devastating impact, and to change the economic structure so that in 2012 there are several areas of interest to foreign direct investors. A significant increase in the stock of FDI recorded in financial intermediation and insurance sector, 9.4 percent in 2012 compared to 2003, but also in the construction sector in 2012 increased by 7%. This increase can be explained by the juxtaposition of real estate transactions in this sector, which in 2003 was missing. Note that the trade sector not recorded any progress when shares in 2012 compared to 2003, but in absolute numbers in 2003 recorded 1.106 billion euros in FDI stock, while in 2012 has evolved to 6.714 billion euros, which an increase of 5.608 billion euros. This increase in absolute value can be explained from the point of view of events with an economic impact that occurred during the period analyzed, namely integration into the EU and NATO, economic crisis, national and global level, but also in terms of the value of money, which in 2003 had a different purchasing power (Rujan et. al., 2008).

3. Multinational corporations and Romanian economy

The industry's most sought foreign direct investors, we propose continue to talk about the most important multinationals in manufacturing, as these by outstanding performance themselves and the ripple effects on other participants in the global market they stimulate development and progress. Should not be overlooked nor ignored that, given the economic power and decision impressive multinationals, their work can have disruptive effects even destabilizing national economies and social and political life in many developing countries less prepared to deal to pressure from those companies interested, as is natural, primarily from rising profits, their strategic positioning in international markets.

Next, we created a table with the top 10 multinational corporations in the world, then in Europe and finally the multinational corporations that invest in Romania. In Romania multinationals have employed economic activities following to focus on industry, especially the manufacturing industry.

Table 1. Top 10 multinational corporations in the world by foreign assets in 2012, the country of origin and economic activity, and total assets

No.	Company	Country	Economic activity	External assets (million dollars)	Total assets (million dollars)
1	General Electric Co	SUA	Energetic industry	338157	685328
2	Royal Dutch Shell plc	UK	Manufacturing industry	307938	360325
3	British Petroleum plc	UK	Manufacturing industry	270247	300193
4	Toyota Motor Corporation	Japan	Manufacturing industry	233193	376841
5	Total SA	France	Manufacturing industry	214507	227107
6	Exxon Mobil Corporation	SUA	Manufacturing industry	214349	333795
7	Vodafone Group Plc	UK	Telecommunications	199003	217031
8	GDF Suez	France	Utilities (gas, water)	175057	271607
9	Chevron Corporation	SUA	Manufacturing industry	158865	232982
10	Volkswagen Group	Germany	Manufacturing industry	158046	409257

Source: data from www.unctad.org

From table 1 we can notice that the United States rank first in the world through multinational General Electric Co., which operates in the energy industry, with foreign assets worth 338157 million $ and an asset value total of 685328 million in 2012. It notes that it is multinational with the largest value of foreign assets in 2012 in the world. Second in the world is occupied by Royal Dutch Shell plc, an English multinational dealing with activities in the manufacturing sector, with a value in 2012 of 307938 million $ foreign assets and total assets value 360325 million $. Thus we can say that the first in the world by value of foreign assets (Vidraşcu, 2015) is the energy industry, followed by the manufacturing industry. Places 3, 4, 5 and 6 are occupied by multinational economic activity throughout the manufacturing industry, which have values of foreign assets appropriated, between 271000 and 214000 million. It appears that the activity of the manufacturing industry dominates the top 10 multinational world, which means that it is an important sector in economic activity, from which it can realize substantial revenues to the state budget in the long term leading to a possible growth based on activity in manufacturing. It also notes that the US and UK are the most common for multinationals in manufacturing, both for petroleum and automotive.

Next we analyze the top 10 European multinational corporations that fall in the top 50 multinationals in the world by turnover, but that some of them have invested in Romania. I will also delineate manufacturing multinational corporations.

Table 2. Top 10 multinational corporations in Europe, ranked in 2011, the country and the city, economic activity, turnover and rank in the world

No.	Company	Country and City	Economic activity	Turnover (mil.$)	World Rank
1	Royal Dutch Shell	Holland-Haga	Energetic industry	378,152	2
2	British Petroleum	Anglia-London	Manufacturing industry	308,928	4
3	Total	France-Courbevoie	Manufacturing industry	186,055	11
4	Volkswagen	Germania-Wolfsburg	Manufacturing industry	168,041	13
5	AXA	France-Paris	Finance and insurance	162,236	14
6	ING Group	Holland-Amsterdam	Finance and insurance	147,052	17
7	Glencore International	Switzerland-Baar	Extraction industry	144,978	18
8	ENI	Italy-Roma	Manufacturing industry	131,756	23
9	Daimler	Germany- Stuttgart	Manufacturing industry	129,481	24
10	BNP Paribas	France-Paris	Finance and insurance	128,726	26

Source: data from www.money.cnn.com

From table 2 we find that the first place in Europe is Royal Dutch Shell which has the field of electricity and electricity, with a turnover of $ 378.152 million and also ranks second in the world by turnover multinational in 2011. On 2, 3 and 4 seats lies activity multinational manufacturing base so that British Petroleum is ranked 4 in the world by turnover multinational in Europe holds the 2nd position, dealing with processing crude oil.

No position. 3 in Europe in terms of turnover multinational occupied by Total, a French corporation which deals with processing oil and gas, with a turnover of $ 186.055 million and with an 11th place in the world on the same basis in 2011. We note that rank 8 and 9 is also owned by multinational operating in manufacturing, and the world they hold 23 seats for ENI in charge of processing oil and gas, and 24 for Daimler dealing with automotive processing. It notes that the remaining positions in the top 10 multinational corporations in Europe by turnover in 2011 were occupied by businesses that operates in areas such as mining and quarrying (Glencore International) and brokerage of financial and insurance (AXIS, ING, BNP Paribas).

Next we made a table that includes major multinational corporations have invested in Romania, depending on country of origin and economic activity, completing the turnover in Europe and rank respectively in the world; I will also highlight the positions held by the industry.

Table 3. Top 10 multinational corporations that have invested in Romania by country of origin, economic activity and turnover in 2011

No.	Company	Country	Economic activity	Turnover (Euro)
1	Omv Petrom .S.A.	Romania	Manufacturing industry	4,612,306,091
2	Automobile Dacia.S.A.	Romania - France	Manufacturing industry	3,012,327,498
3	Rompetrol Rafinărie.S.A.	Romania - Holland	Manufacturing industry	2,765,510,174
4	Petrotel Lukoil.S.A.	Romania - Russia	Manufacturing industry	1,555,986,615
5	British American Tabacco (România) Trading.S.R.L.	SUA	Tobacco	1,481,192,771
6	Kaufland România.S.C.S.	Germania	Commerce	1,444,877,086
7	Lukoil România.S.R.L.	Russia	Manufacturing industry	1,353,425,256
8	Renault Industrie Roumanie.S.R.L.	France	Manufacturing industry	1,218,868,576
9	Arcelormittal Galați.S.A.	Luxembourg	Extraction industry	1,216,041,778
10	E.On Energie România.S.A.	Romania	Extraction industry	1,179,836,242

Source: data from www.mcr.doingbusiness.ro

From Table 3 we saw that leaders in multinational corporations are that their economic activity in manufacturing, followed by multinational specialized in trade and mining industry. Overall large multinationals that invest in Romania are mainly in manufacturing, which means that an area is attractive and brings substantial revenue to the Romanian state budget. We can say that manufacturing is of particular importance in attracting FDI, so the oil processing sector in manufacturing branches occupy the top three rankings top 10 multinational corporations that invest in Romania. Multinationals in the top rankings were Romanian companies after privatization, the restructuring of the economy that were bought by foreign companies.

4. Conclusions

Foreign direct investment is a key factor in the economy of a country emerging as Romania as they can help substantially to economic growth by introducing more efficient technologies, creating jobs both qualified persons with higher education or environments and for the unskilled. FDI helps to increase competitiveness in the Romanian market, so companies will be directly interested in investing in R & D and innovation to withstand market their work raises standards; such strong companies remain on the market, while not productive firms exit the market thus making room for those ready.

On the analysis of foreign direct investment in Romania we found that from 2003 to 2006 the FDI inflows show a continuous increase explained by the multitude of privatizations recorded in banking and industry, but also other factors such as the agreement of accession to the European Union in 2004 and approximating the moment EU integration in 2007. From 2008 to 2011 FDI flows declined steadily, dramatic decrease is attributed to the economic crisis and global national financial. In terms of FDI stock, it has experienced steady growth over the period 2003-2012, in terms of shareholdings and credits. By analyzing and distribution of FDI by main economic activity, we have seen mainly as mining and manufacturing are the leading industry in attracting FDI; But the sector that increased most in attracting FDI was that of financial intermediation and insurance, so the FDI in this sector doubled in 2012 compared to 2003. In terms of manufacturing we found that the shareholding higher total FDI respectively 50.9% in 2003; 32.9% in 2007; 31.1% in 2009 and 31.3% in 2012.

If we refer to multinational corporations have learned that the US and UK are the main players in the market and is the predominant manufacturing as an economic activity for multinational corporations. In Romania, the first 4 places of multinational corporations were investing in economic activity in manufacturing and processing firms are the processing of oil and cars. Of course multinationals in the top rankings were Romanian companies after privatization, restructuring of the economy that have been purchased by foreign companies. To accomplish the objectives of Europe 2020, Romania should aim level proposed by the European Commission for each indicator. To meet the objectives and indicators to achieve the levels for 2020, Romania should support foreign direct investment on the national and private research, development and innovation; but also those between enterprises and research organizations thus encourage the transfer of knowledge, technology and personnel with advanced skills and developing products and services based on research, development and innovation in economic sectors with growth potential, such as manufacturing. If we raise the rating of the country and we get rid of the problems of economic and political instability and bureaucracy lifted, foreign investors could be directly Romania, as can be sure that they will recover their investment in a shorter time, to present when they are in danger of not regain it more. Therefore Romania is a country with potential in attracting FDI; the problem is that the country's potential is not exploited.

5. References

1. Anghel, E., I., (2002), *Investițiile străine directe în România*, Editura Expert, Bucureşti
2. Anghelache, C., (2003), *România 2003: Starea economică. Perspective,* Editura Economică, Bucureşti
3. Ayarwal, P., J.; Gubitz, A., Nunnenkam, P., (1991), *Foreign Direct Investment in Developing Countries, The Case of Germany,* J.C.B. Tubingen

4. Balan, M., Balan, G., (2013), "*Social Vulnerability: A Multidimensional Analysis of the Development Regions of Romania*", published in the Volume: *Applied Social Sciences: Economics and Politics*, Cambridge Scholars Publishing, pp. 3-11
5. Burghelea, C., Aceleanu, M., I., Gheorghiu, A., Burghelea, O., C., (2014), *Apects of the evolution of the main macroeconomic indicators in Romania*, Internal Auditing & Risk Management, Year IX, No. 2(34)
6. Burghelea, C., Mihăilescu, N., Burghelea, C., O., Turcu, V., A., (2015), *Analysis of analysis of sustainable economic growth position of european countries by econometric modeling*, "Scientific papers series management, economic engineering in agriculture and rural development" VOL. 15, ISSUE 4, PRINT ISSN 2284-7995, E-ISSN 2285-3952
7. Moise, E., *Investiţii străine directe*, (2005), Editura Victor, Bucureşti
8. Montogomery, G., E., Grugman, R., P., (1989), *Foreign Direct Investment in the United States*, Institute for International Economics, Washington, DC
9. Rujan, O., Jianu, C., Briceag, C., Drăghici, A., Gârdaru, D., Lutan, I., Popa, D., Vasilescu, F., (2008), *Model econometric de analiză pentru identificarea direcţiilor de evoluţie şi a căilor de creştere a competitivităţii industriei prelucrătoare după aderarea României la Uniunea Europeana*, Editura ASE, Bucureşti
10. Vidraşcu, P., A., (2015) *Implications of sustainable development (SD) and intangible assets (IA),* The Seventh International Conference ECOLOGICAL PERFORMANCE IN A COMPETITIVE ECONOMY (PEEC 2015), 5 – 6 March, 2015, Bucharest, published in Quality – Access to Success, 16 (S1).
11. www.bnro.ro
12. www.eurostat.ec.europa.eu
13. www.insse.ro
14. www.unctad.org
15. www.money.cnn.com
16. www.mcr.doingbusiness.ro