

IMPLICATIONS OF FOREIGN DIRECT INVESTMENTS ON SMALL AND MEDIUM ENTERPRISES IN ROMANIA

Nicoleta, Mihăilă¹

Abstract:

Foreign investments contribute massively to the increase of business profitability. Attraction and efficient allocation of capital inflows (mainly in the form of high quality investment made at microeconomic level) represent the main “engine” for GDP growth in medium and long term. This will facilitate private sector access to finance investments, encourage technology transfer and innovation, promote technological parks and business incubators, stimulate innovation and entrepreneurship, support female entrepreneurship, increase efficiency and labor productivity for private companies, as well as management practices based on the principle of investing in people.

Analysing the business environment involves, among other things, identifying and removing barriers that produce strain effects of overcoming difficulties for firms, respectively:

- the desire that the investment in human capital would have immediate effects;*
- Insufficient correlation of wage increases and granting bonuses with increasing productivity;*
- Dialogue and partnerships with universities that could bring competitive advantage stands sometimes in incipient phases.*

Key words: SME, foreign direct investments, human capital, education

Jel Classification: E22, I25, J61, O16

1. General aspects

Investments are incentives that generate new economic activities and aims at the production of goods and services needed for a viable economy. More specifically, they are an important element of economic development of any country and its functioning on market principles.

Mobilizing investment resources favors and anticipates strategic development objectives of any country. This process contributes both to increased industrial production, a complex improving of national economy, solving the issues related to upgrading of enterprises, but also the sustainable development of the regions (communities), thus solving social problems.

Foreign direct investments are considered as unique the solution with chances of success for solving structural problems and reduce competitiveness gaps that separate developed economies to emerging economies. Romania objectively needs foreign direct investments to complement and intensify domestic capital in order to support increased competitiveness and resource efficiency of assets and capabilities.

Most foreign investments are attracted to countries with economic and political stability, countries that have made progress on economic reform, restructuring, including the financial sector. The countries of Central and Eastern Europe have attracted foreign investments in different ways, depending on progress made in the process of transition to the market economy.

The deciding factors in attracting a larger volume of foreign direct investment are at present basic economic conditions in host countries, domestic market size, production costs, utility costs, access to natural resources, etc.

¹ Scientific researcher, ph, Center for Financial and Monetary Research “Victor Slăvescu”, Academia Română, Bucharest, nikmihaila@yahoo.com

In order to increase the competitiveness of Romanian products and services to cope with the competition in the single internal market, Romania has drafted Competitiveness Strategy for 2012-2020, aligned to European requirements, which aims at moving from economic development model based on hand cheap labour to the one based on quality infrastructure investment, in which the potential of workforce well prepared will be led by creative enterprises. This strategy is based on four pillars:

- Economic performance: macroeconomic stability, industry, pro-export strategy, agriculture, tourism, cohesion policy.

- The efficiency of public institutions

- Efficiency business environment: employment, improving the business environment, financial markets

- Infrastructure: transport, energy and environment, health, education and innovation.

It is recognized that FDI is an important source of employment for the host countries, thus highlighting their role in the creation or job reallocation. Investors focuses on the implications of expanding the production activity at international level and its consequences on both the developed and emerging countries.

We believe that the exit the current economic crisis must be based on foreign investment, founded on competitiveness and higher skilled workforce; the current economic crisis deepens the inequality between people, providing them problems such as the existence of jobs, increasing unemployment in almost all sectors of the economy.

The impact of FDI on employment in the host country depends on many factors: stage of investment, purpose, economic sector and different regions of the host country in which the investment is.

If the investment is aimed at creating new objectives, the effect on employment is reflected in the increasing the number of jobs. If there are mergers, acquisitions or just a replacement of owner's investment objective, it is possible that the number of jobs to decrease or remain unchanged.

If regarding taxation the comparisons are relatively easy to do, the same can not be said about how friendly a business environment is to Employment phenomenon may be influenced by industry or economic sector character where the investment occurs, so if it takes place in labour intensive economic sectors, such as construction or agriculture, it would be possible to achieve an increase in employment labour available locally.

In case the investment is made into branches that require significant financial resources such as information and communication technology, investment effects materialize in increased quality and efficiency of the workforce, a training top and not an increase in the number of employees.

Business environment in Romania needs economic freedom and friendly taxation for entrepreneurs, including foreign investors. Creating a favorable economic environment is achieved by promoting favorable conditions for attracting foreign investors, such as fair and non-discriminatory treatment, protection against illegal expropriation, direct recourse to international arbitration, and the transformation of Romania into an attractive environment from a tax perspective.

2. Investment climate in Romania. Features

The investor, when deciding to invest in a country, focuses on two things: the level of taxation and how friendly is the local business environment. It is hard to decide where is best to start a business: in a low tax state, but with higher corruption, or in one with high taxes, but stable and predictable business environment.

another. In this respect the World Bank realises an annual report, Doing Business, which evaluates all indicators that measure predictability of the business environment.

Romania ranked 73 of 189 countries, compared with 72 the previous position. Basically, despite three regulatory environment improvements considered in ranking by World Bank in Doing Business report for 2014, Romania lost one position, hovering on 73 this year.

In 2013 we ranked 72 position; meanwhile, most countries improved the regulatory environment and understood that small and medium enterprises represent both an engine for economic growth that could help economies to recover and an engine to job creation. That generates implicitly an increase in global competitiveness to attracting foreign investments.

An unfriendly regulatory environment for entrepreneurs means more time and more money lost in the creation and growing a business. On the other hand, an effective regulatory environment will increase the chances for entrepreneurs to develop their business and create jobs, which means for employees social security and stable income

If at general level Romania ranked the 73, on certain areas of analysis considered by the World Bank Romania ranked better or towards the end of the race. For example, starting a business in Romania is ranked 60 of 189 countries, 5 places higher than last year. In Romania it takes 8.5 days and to the performance of five procedures to start a business. By comparison, the global average is 25 days and the fulfillment of seven procedures. At extremes, in New Zealand it only takes half a day and a procedure and in countries like Suriname is needed for an entrepreneur to wait 208 days to register a business.

Romania scored positively in 2012-2013, according to Doing Business 2014 report, at enforcing contracts, facilitating the application by adopting a new Code of Civil Procedure. Also in Romania became easier the payment of taxes by reducing their payment frequency from quarterly to every six months.

Regarding costs and ease of paying taxes, Romania ranks 134 of 189 analyzed countries, 136 to getting building permits and 174 to getting electricity.

In Doing Business data interpretation should be considered the fact that it has been taken into account the regulatory environment for small and medium businesses operating in the largest city in each country, on 1 June 2013.

More specifically:

- Romania is ranked 73 of 189 countries in context of business environment;
- as regards to access to credit, our country has fallen two places from last year, reaching position 13;

- In terms of starting a business, Romania reached number 60, five positions above;
- in accessing electricity, Romania is ranked 174, one position down from last year;
- payment of taxes by companies has been simplified, climbing Romania to 134th in the world (ranked 139 obtained in 2013). However, European companies have to pay on average only 12 charges.

- In terms of resolving insolvency, Romania climbed four positions to 99th.
- place 76 is the only position that Romania has managed to keep in the overall standings in international trade. Thus, imports require still five documents, 12 days and a cost of \$ 1,485 per container.

- Romania is ranked 52 in chapter protecting investors, one position below the previous year. The strength of the business environment in Romania is transparency. However, as regards accountability for managers of firms, ease of opening court cases by shareholders and the investor protection level are still weak points for Romania.

3. Foreign Direct Investments(FDI) in Romania. Characteristics and evolution

Along with beginning the crisis and reducing the volume of foreign direct investments starting with 2009, the annual rates of growth valued at 5-7% have experienced sharp declines. Also, factors of production, such as labour and human capital, suffered significant negative changes, decreasing their contribution to economic growth. Workforce was reduced

both in number and qualitatively, through the migration of approx. 2 million people, including more skilled or highly specialized personal and domestic human capital was shaken up by austerity measures introduced. The employment rate of labour decreased continuously in recent years to 63%, showing the lowest value in the EU-27.



Graphic 1 - Evolution of foreign investments in Romania

Source: NBR Annual Report 2013, FDI in Romania in 2012

Evolution of FDI flow had an upward trend since 2002 until 2008, when the peak has touched 9.49 billion. After this point, massive withdrawals of foreign capital led to the collapse of the investment volume to 1.6 billion in 2012. This evolution was reflected not only in the growth rate of GDP, but also in the number of staff employed in the economy in respective intervals. Thus, in the peak year of 2008, the Romanian economy had an average number of employees of 4.8 million people, the largest in the last decade. In that year multinational companies started business in Romania, such as Nokia mobile phone factory in Jucu, Delphi Diesel System auto parts factory in Iasi or P & G cosmetics factory from Urlați. Other multinational companies have extended their activity and created jobs locally.

Drastic reduction in foreign investments in the coming years, the decrease in consumption and the need to reducing costs for companies had an immediate effect as regards the total number of employees; the historical minimum was recorded in January of 2011, when in the economy were employed only 4,09 million persons.

The flow of foreign direct investment in 2011 amounted to a total value of 1,815 million euro, lower compared to previous year. This volume was distributed in proportion of 83.3% as share capital and 16.7% as net credit received from foreign investors. Distribution of FDI by main economic activity shows the orientation to manufacturing with a FDI value to 1.253 million euros (31.5% of total). Within this industry, the best represented sectors are oil processing, chemicals, rubber and plastic products (6.3% of total), transport means (5.2%), metallurgy (4.9%), food, beverages and tobacco (4.1%) and cement, glass, ceramics (3.2%).

Other areas of interest were construction and real estate (939 million), financial intermediation, insurance (913 million) and trade (409 million euros).

As types of FDI, in 2011 are differentiated greenfield investments, mergers, acquisitions and corporate development. Greenfield investments were very low, only 0.7% of the equity interests in companies and mergers and acquisitions category 2.1% of equity. The predominant (97.2%) in the flow of shareholdings in 2011 was used for the development of companies.

From the territorial point of view, FDI in 2012 are oriented towards Bucharest-Ilfov region, the following development regions benefiting to FDI being the Central region, Western region, South-Muntenia and South-East.

We mention that FDIs were located by territorial headquarters of direct investment enterprises, which do not always correspond with the location of economic activity.

Table 1 - FDI by region, 31.12.2012

Regions	Share in FDI(%)
Bucharest- Ilfov	60,6
Center	7,8
West	7,6
South- Muntenia	7,2
South-Est	5,5
North-West	4,8
North-West Oltenia	3,5
North-Est	3,0

Source: NBR Annual Report 2013, FDI in Romania in 2012

The superiority of the performance of SMEs in the Bucharest-Ilfov region is based on a high level of labour productivity, it reflects the strong financial and economic development of the country's capital, concentrating service activities and less the industrial sector where labour productivity is usually lower.

Table 2 - Macroeconomic indicators for the period 2008 - 2012

Indicator	2008	2009	2010	2011	2012 (prognoz)
Foreign investments(mld.euro)	9,5	3,5	2,22	1,9	1,8
Average number of employees (thousand persons)	5.046,3	4.774,3	4.376,0	4.348,7	4.4430
Number of unemployed (thousand persons)	403,4	709,4	627,0	461,0	462
The unemployment rate by the end of the year (%)	4,4	7,8	7,0	5,2	5,2

Source: National Commission for Prognosis, the projection of main macroeconomic indicators-forecast for 2012 autumn, 2013 NIS releases, NBR Report on Foreign Direct Investment in 2012

4. Education, determining factor in the sustainable development of the enterprise

Europe is confronted with a major challenge regarding the economic competitiveness by increasing labour productivity. In this context, new initiatives for EU competitiveness were launched targeting to key components such as: innovation, expanding high-tech and knowledge-intensive services, new skills and qualifications, sustainable development.

In this context, SMEs are considered one of the driving forces of the modern economy, due to their ability for innovation and technological adaptation, of generator of jobs and export promoters.

Foreign direct investments have a major impact in the enterprise development, through innovation and competitiveness at their level.

Also, universities have an important role in stimulating the creation of new firms in the fields of science and high technology and facilitate the connection between public and private research and business world. Public support measures applied for this purpose are oriented towards increasing the "spin-off" business based on research, through: a review of the status of the researcher, better regulations in intellectual property, annual awards, promoting entrepreneurial campus, improving access to financing for entrepreneurs

students, support for business incubators and their certification, providing support for technology transfer centers oriented to result.

Promoting entrepreneurship became a strategic objective in public policy for growth and employment in Europe, especially with the increasing globalization of markets in the 90s. Subsequently, the spread of the global crisis has increased pressure on the economy, creating new challenges and stressing the need to develop a solid base for more innovative and creative entrepreneurs, able to bring economic recovery and create new jobs.

Entrepreneurial education is a key factor in this process, with a positive impact on entrepreneur spirit of the young generation, the attitude and willingness to private initiative and finally, the role in economy and society.

Entrepreneurial abilities can transform ideas into actions, involving creativity, innovation, risk taking, the potential of project management and achieving goals. But only by suitable training individual talent can be taught, allowing the understanding of a given context, evaluating opportunities and risks, implementing the entrepreneurial initiative and starting a trade.

According to a 2012 study from the European Commission, the objectives of entrepreneurial education are related to the improvement of youth entrepreneurial skills, creativity and self-confidence, encourage innovative startups, increasing the role of entrepreneurs in the society and the economy. Although the entrepreneurial knowledge necessary for learning is growing, there are still several barriers in the development of entrepreneurial education, especially those regarding the finance and human resources.

School and teachers play an important role, but they should be supported by private companies and nonprofit organizations that can provide resources and experience.

As globalization increasingly affects the world economy, the dynamism of entrepreneurship is seen as a factor that contributes to strengthening the knowledge economy, solving social and environmental problems. Entrepreneurial policies are more closely correlated with those for innovation, geared on creating new products and services, by exploiting both valences of the knowledge economy.

Significant advances have occurred in recent years, when there were implemented a number of measures to promote entrepreneurial education both in the national education system as well as various training programs, though Romania does not have a national strategy for entrepreneurship education, as exists in many European countries.

A decisive step was made in 2009 by revising the curricula in the preuniversity education, entrepreneurial education being explicitly recognized as a cross-curricular objective and became part of the compulsory subject "technological education" taught in middle school and "applied economics" studied in all high schools regardless profile. Meanwhile many higher education institutions from all universities through their curriculum provides entrepreneurial education in three distinct forms: bachelor, master and doctorate.

Junior Achievement Romania Organization implemented since 2003 optional programs for economic, entrepreneurial and vocational education in more than 1.000 public schools in partnership with the Ministry of Education.

Also, two other successful international programs the entrepreneurial development are "School for Startups Romania" and "Business Mentoring Program" as well as entrepreneurial development projects with similar goals within POSDRU.

In conclusion, the sustainability of an enterprise can be achieved by organizational culture, competence, approaching with caution both the periods of economic boom, but especially those of crisis, resistance to the desire of cutting costs in favor of cost optimization.

We believe that we can bring progress and sustainability in the business environment if we consider the solutions and not the product, the access and not choosing a market, added value and not the price, education and not advertising and promotion. Also, analysing the

business environment involves, among other things, identifying and removing barriers that produce strain effects of overcoming difficulties for firms, respectively:

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Conclusion

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The perception of foreign investors about the savings they invest in depend on many factors, such as insurance of macroeconomic stability, simplification of tax procedures and flexibility of labour code, investments in transport and information infrastructure, legislative stability, skilled labour.

In order to promote entrepreneurial education in Romania, we believe it is necessary to pay attention to some matters:

- implementing the EU policy framework for SME support in the national strategy,
- promotion of entrepreneurial education and training for economic development and create new business
- improving SMEs' access to finance,
- support for new enterprises in the early stages of their life cycle.

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