

## **SUMMARY**

Due to the globalization process of the world economy, the investments of foreign capital tend to become, along with each country's own resources, a main source of financing and economic development, especially in Central and Eastern Europe, which are experiencing a change in the economic system and a process of systemic transformation that demanded a massive income of resource in order to manage such transformation. These countries did not possess the necessary tools to deal with such a challenge, did not possess the institutional infrastructure to allow large relocation and to coordinate such a big transformation process. Within this context, the direct foreign investment represented a solution to the stringent necessity of restructuring the inner economy and of empowering competition on the external markets, the financing the economic growth and restructuring without internal resources. For this respect, capital foreign investments are needful and have both a simulative and a dynamic role.

The main aim of this work consists of examining the impact of the direct foreign investments upon the modernization process of the Romanian economy and the recommendation elaboration regarding the amelioration of investment background as well as the efficient usage of foreign investments aiming to speed up the modernization pace of our national economy and efficient participation in the European Union.

Within the current transformations in Romania, an integrator approach in direct foreign investment research has been considered necessary, from the point of view of world economic development as well as from the point of view of economic, social, political reforms. For Romania, with limited internal capital, foreign investments are more than necessary. Besides contributing to the country's financial resources, the foreign capital supports the unavoidable structural adjustments to the Romanian economy.

The purpose of this work is to approach the complexity of direct foreign investments, starting from the evolution of theoretical approaches and their practicality, connected to the reorganization and economic development of Romania. The direct foreign investments conditions and effects are so wide that their analysis has automatically led us to approach the entire system of national and international economic development.

The first of the six chapters, named “Theoretical and empirical considerations regarding direct foreign investments”, is meant to be the starting point to ensure the theoretical base needed to approach all the practical elements gravitating around the direct foreign investments. In the beginning, starting from the definitions of certain Romanian and foreign authors, I have adopted the “foreign investment” term through the lens of the new national and international evolution. The investments’ relevance and the complex role, relating to the objectives of financial resource owners, the complex needs of enterprises have surprised general and specific classification systems, depending on the investors’ orientation and interests, their field, the expected impact. Therefore, there have been succinctly approached, elements that, theoretically, explain the existence of direct foreign investments and their difference in the main typologies: searching for resources, markets, efficiency or strategic actives.

At the same time there have been presented the contents, the determinant factors and the role of direct foreign investments, underlining those essential aspects in the fundament of the analysis made throughout the work. Although foreign investments do not represent the key to national economic growth but an engine of this process, I have showed that their widening can have a major positive impact upon national economies in case such investments are connected to the development of a stable, simple, transparent and functional institutional environment. Without neglecting the multitude of positive effects that direct foreign investments can generate, throughout my analysis I have not excluded certain negative effects, specific to any transitional economy. Such effects can be

stronger especial in countries that do not possess well structured political economies and steady sector options.

The second chapter, “Theoretical approaches on influential factors of investment attractiveness”, presents the importance of foreign investors’ access liberalization to markets for the process of systemic transformation of former countries with centralized planned economies. The economic growth and social progress represent the result of combining economic forces, advantages and existent potential, correlated to proper economic politics and right government, in other words, through a favorable investment environment. Direct foreign investments possess the potential of bringing important economic benefits, and the attractive investment environment will grant this process long term continuity with performance effects.

Therefore, I have appreciated the attractiveness that different countries present to the investors, based on a complex methodology, also reaching the demands for a favorable foreign investments environment. The global business environment appreciation is often reduced only to the determination of the analyzed country, to the rating appreciation and does not suppose a correlation between the risk generated by the deterioration of the investment environment factors and the expected profitability, does not appreciate the investment potential of the economic agent, the opportunities of business achievement in poor climate. In this respect, a complex estimation and a perspective approach regarding the determinant factor evolution allows the real appreciation of the climate ensuring the environmental quality and the elaboration of avoidance or reduction risk of potential investment.

Although foreign investments do not represent the key to national economic growth but an engine of this process, I have showed that their widening can have a major positive impact upon national economies in case such investments are connected to the development of a stable, simple, transparent and functional institutional environment. The performance achieved by the states in

implementing reforms and in advancing in the systemic transformation seems to have had a great impact on the flux of direct foreign investments.

World experience shows that the amelioration of the investing environment represents the main condition of attracting foreign investors. Creating a favorable investment environment has been and will continue to be one of the main tasks of economic politics of the countries, the maximization of positive effects and diminishing of “costs” associated with the direct foreign investments depending on the concrete conditions from the implantation on economical, social and political level, on the foreign capital income and on the direct foreign investments influx structure. In the central and eastern European countries in which the direct foreign investment policies were based on a clear, coherent and long term strategy aiming the improvement of product quality by investing in technology, infrastructure and work force training, the massive foreign capital flux have generated significant positive effects materialized in supporting and emphasizing social and economic growth that will logically influence the level and quality of future fluxes.

Within this chapter I have presented the main national and international bodies and institutions involved in the settlement and promotion of direct foreign investments, maintaining their role in the growth of foreign investments in Romania and the contributions to implementing economic, structural and sector reform, economic development , competitiveness growth, job opportunities as well as the efforts made by Romania in order to achieve integration and convergence, the capacity consolidation of obtaining European structural funds.

The third chapter, “Efficiency, essential element of investment decision”, reflects that the foreign investments issue and investment development must be considered not only from the perspective of an economy that needs an investing impulse but also from the perspective of multinational companies which analyze the eventuality of appearing on the host country market. Investment economic efficiency and its risks are essential within the decisional process; therefore they must be identified and evaluated for the existent alternatives.

Although the investment efficiency cannot be confused only with one side of the effect- effort report, still, efficiency can be influenced by resource separate optimizing as well as investment results. Measuring the investment results within the international economic relations involves considering the mechanisms of the currency-financial relations, knowing the sell-buy mechanism, of forming the international prices, of ensuring currency-financial risks as well as agile managing of currency-financial provisions occurring into an investment project. For the companies confronted with investment decisions, the acceptable “maximum” level must be defined, that depends on the (objective) conditions of each activity or investment and also on the (subjective) attitude towards the decisional factor risk.

Analyzing the investment environment and the foreign investment attraction strategies in Romania within the context determined by the integration in the European Union, in the fourth chapter I have emphasized the essence of investment processes and I have underlined the interdependence that must exist among the macroeconomic and structural policies and investment field policy, fact that comes from the complexity of consequences at a country level as well as the entire national economy. Within the context conferred by the status of Member of the European Union, Romania had to rethink the entire attraction policy of direct foreign investment, according to the communitarian *acquis* regulations and the assumed responsibilities in the field of competition and state assistance.

The Romanian economic situation regarded from the macroeconomic perspective view as well as within the developing countries group, is important as it represents part of the preliminary analysis that any foreign investor makes when they identify investment opportunities on a new market. Therefore, although in World Bank Report, from the autumn of 2006, Romania is situated on the second place in the world and the first in Europe among the reforming countries in the field of business improvement; the recent evolutions show the stagnation of the efforts made in this respect and even the deterioration of this environment. Romania is considered by the analysts of rating agencies as less prepared than

other countries from the region to handle the volatility of international countries, considering the high fiscal deficit, the poor economic structures, as well as the rigidity on the labor market. These situated Romania in the highest category of vulnerability of systemic potential risks in the beginning of the year 2008, together with other countries, on the background of fast growth of the RON appreciation from the first half of last year.

The Report of Global Competitiveness 2007-2008, places Romania on the 26<sup>th</sup> position from the 27 positions within the countries of the European Union, outmatching only Bulgaria. According to the report, Romania is placed in the category of economies based on investments, where the determinant factor of competitiveness are based on education, the level on internal competitiveness, on certain labour market conditions, on the financial market, on technological training as well as on the market size.

The most important issues the business environment encounters are the taxation level and tax legislation, corruption, poor infrastructure and political instability as some of the important obstacles while the inflation is no longer a main problem.

Romania finds itself in a process of modernization and development, determined by the integration in the economic and institutional structures of the European Union, as well as the larger involvement in the economic fluxes and global competition. These processes generate important investments ( in projects of infrastructure, institutional and administrative reform, business environment, modern technologies and human resources development) and it needs adopting policies, modern mechanisms and instruments adapted to the specific of the Romanian economy but accepted on the European and international background, examined by us within the SWOT analysis regarding the direct foreign investments in Romania. The present critical accents do not signify a misunderstanding of the real processes regarding the transformation of the general and investment economic environment, but the fact that making a comparison with

the other countries has underlined certain negative evolutions, sometimes specific only to Romania, other times commune to the other countries as well.

Within the fifth chapter, “ The dynamic of direct foreign investments in Romania and their contribution to the development of modernizing the Romanian economy”, our country is the object of a distinct study as well of a study within the group of countries in transition in which the direct foreign investment volume and structure have had a sequent approach, in comparison to the other analyzed countries. Analyzing the evolution of direct foreign investments influx, I have showed that the countries from eastern and central Europe registered a different dynamic, conditioned by the economic and internal policy structure. As far as the quantity is concerned, through the achieved analysis, I have proved that in Romania, in comparison to other countries from ECE, especially Estonia, Hungary and the Check Republic, we cannot speak about a significant involvement of the foreign capital in economy, as the flux of direct foreign investments fluxes from the past years did not reflect significantly on the intern gross product, on the gross fix capital formation, on the VAT and the labour market.

I have also emphasized the fact that the adhesion to the European Union represents a real stimulant for the foreign investors enhancing the Romanian attractiveness.

The analysis of sector, territorial, branch distribution of direct foreign investments obtained for Romania has outlined the strong concentration of foreign capital in those regions of the country beneficiating of a good level of development and a modern infrastructure, as well as the preference of investors for activities in the field of services (financial, trade, companies services) and certain traditional industrial activities ( metallurgy, automobile industry, cement, chemical products).

The direct foreign investments stocks received by Romania are relatively reduced in comparison to the other countries from CEE (especially Estonia, Hungary and the Check Republic), being strongly concentrated on the parts that

benefit from a higher development level and a more modern physical infrastructure. The analysis of the direct foreign investments flux towards Romania from the last 18 years has led us to believe that the economic policies, the legislative and institutional stability can have a major influence on the decision of foreign investors. The size, the attractiveness and the clarity of project and investments presentation have a major role in determining the volume of investment income. I have also learned that the usage of financial or taxation stimulants is not a substitute of a legal simulative environment but, in some cases, it can be considered a supplement of an investment environment already attractive or a compensation for the market imperfections that cannot be otherwise remedied. Once with the adhesion to the European Union, on January 1<sup>st</sup>, 2007, Romania achieves an option change, of development mechanisms and instruments creating a shift from the resource control to the quality development by capital and investment infusion, based on the competitiveness principle. Romania is currently making the shift from the sector approach of the economic policies to the integrated multisector of development objectives approach.

In the perspective of our scientific demarche within the last chapter “The direct foreign investments impact upon the modernization of Romanian economy and their economic significance”, I have approached this extremely large and economically controversial domain emphasizing through the idea and data volume and through the analyzed issues, the actuality and importance of these correlations. Selecting certain major aspects disclosed throughout the present work is motivated by the fact that they constitute real crucial points theoretically and practically, needing not only the nomination but also their partition on components approached differently by economists whose attention and interest are focused in the contribution and generated effects by the direct foreign investments in the process of economic reform and transformation. The correlation analysis for the examined period have emphasized the negative and positive contributions of direct foreign investments, proving that the positive effects due to the income of foreign



capital have been often doubled by a less favorable impact upon the social and economic environment.

On the macroeconomic level I have showed that the direct foreign investments have supported the economic growth, through supplementing intern capital as well as through productive activities in upstream or downstream. If regarding the economic growth itself the contribution of direct foreign investments is strong and indubitable, the problems need outlining regarding the content of the economic growth and also the development contribution. Through their content and structure, the foreign investments in Romania have massively induced an economic growth based on import creating extreme vulnerabilities in the external payments, as well as in the international payments. Therefore, direct foreign investments have contributed to the depth of the commercial deficit, on the one hand, through the gauge between the foreign companies import and their export, and on the other hand, due to the goods import with high VAT and of export of low processing degree products. During the last years Romania has confronted a deficit of decreasing current account that has grown three times during the past three years and due to foreign investment money and the loans for its financing. Analyzing the correlation: direct foreign investments - economic growth, I have come to the conclusion that ISD have a positive impact upon the economic growth only in the case in which Romania strongly promotes its own investment policy, considering the national interest and the priorities of the country's development. However, where the state transmits its positions towards foreign companies, foreign investments do not ensure a steady economic growth with high rhythms. Representing a factor of involvement of Romanian economy, apart from the effect of capital enhancement from the cash-flow point of view, through the investing processes is achieved the contribution to new technologies, reforming certain activities domains and also growth of work productivity and production output. Foreign investments, especially the direct ones, constitute the direct way of

economic development, especially in the presence of extremely limited possibilities of national reduced capital to generate economic growth.

Romanian interests involve the enhancement of certain investment types, respectively of those stuck in activities with high VAT, of those export generators and Greenfield type, that suppose a complex transfer and more complete of economic resources. All these investment categories firstly suppose the involvement of foreign investors in ensuring the higher qualification of labor force, as well as a positive report of work places. As far as the availability of work force, on the one hand there are jobs still uncovered by the existent qualifications, and on the other hand there is a flow on work force abroad which demonstrates the absence of a functional market of labour force. As a result, obtaining this category of investment will also contribute to ensuring beneficial effects upon the work force, among which the migration reduction and the attenuation of negative social effects determined by it. We must mention the need that the state institutions to ensure a proper educational level, primarily, secondarily and thirdly level, currently poor process, with the consequence of work force quality deterioration.

The ISD flux in Romania has a favorable influence upon the external pay balance, also contributing to the growth of the country's currency supplies. This positive influence will be maintained in the future, on condition that ISD not to reduce its sizes, but to enhance them. According to the estimation of the National Prognosis Commission, the current account deficit coverage degree in ISD, during 2008-2013 will grow with 13,8%, due to that fact that although there is the ending of the privatization process of the main utilities and of the big companies with state capital in Romania, there is a still big influx of ISD by building Greenfield objectives, being one of the objectives of the investment policies on average term in Romania that offers a greater stability to the long term profits.

The case study approached in the last part of the thesis demonstrates the benefic effects of the Renault investment in Romania, materialized in the consolidation of competitiveness advantages, in the growth of productivity and

competitiveness of local suppliers' activity, in delivering capital, managerial technology and abilities, in the development of export and the substitution of Romanian products import.