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Foreign Direct Investment - Ways to Implement Business Abroad

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International financial flows are undoubtedly one of the most dynamic components of the modern world economy, experiencing an unprecedented intensification over time. In conditions witch, they are often attributed to the quality of an active factor in developing and increasing the economy's capacity to adapt to market trends, foreign investments represent an element that supports the restructuring process and economic reform in various countries. The purpose of this article consists in performing an analysis of the ways of implanting business abroad through foreign direct investments, also performing a study regarding the evolution of foreign direct investments in Romania in the period 2010-2019.

Keywords: foreign direct investment, transnational corporations, capital flows

1. Introduction

International capital investments take two forms, and namely foreign direct investments and portfolio investments, the distinction between these being given mainly by exercising control over the investment of the investor.

It is known that the problem of foreign direct investment (FDI) has been widely debated, both nationally and internationally, due to the significant effects they have on the economy of each country in particular and the world economy in general.

At the macroeconomic level, it is considered that foreign direct investments feeds economic growth straightforwardly, through supplementation of the internal capital in the conditions of the purchase of fixed assets, and indirectly, because are occurs a stimulation of domestic investment and implicitly an increase in productive activities. Moreover, foreign direct investment is considered an essential source of financing for the current account deficit by increasing foreign capital inflows.

2. Ways to implement business abroad through foreign direct investment

Investments are generally considered an incentive to generate new economic activities and wich are performed mainly for the purpose to realize, building sustainable goods that will be the support of the hope of obtaining, in the future, a profit/value, of some desired valuable advantages, necessary [3].

International investments represent capital transfers from one country to another through their two forms of manifestation, namely foreign direct investments, and portfolio investments.

The purpose of attracting them is not only the immediate, direct effects but also another category of effects. Such effects are generated from the contribution of foreign investments, such as access to other foreign markets, dynamization of human capital formation, implementation of new technologies, efficient management, etc.

Regarding the definition of foreign direct investment, the International Monetary Fund provides a suggestive and explicit description, according to which FDI represents those investments that an entity resident makes in an economy (known as a direct investor), to obtain a long-term interest in another company that is resident in another economy (known as a direct investment enterprise). The International Monetary Fund also clarifies that the long-term interest is, in fact, the existence of a long-term relationship between the investor and the company and that, at the same time, the investor exerts a significant influence on the management of the company in question. [4].

When a foreign investor decides to invest, he can choose between the different ways of implanting his business abroad.

In the specialized literature, there are several such ways of implanting business abroad, among which:

- building a society from scratch (also called greenfield);
- opening of a subsidiary in another country;
- creating a joint venture;
- buying assets in another country, or a foreign company;
- the merger with a foreign company has the same profile;
- investing the profit resulting from the activity of a foreign subsidiary in the same country or another foreign country;
- granting a loan to a subsidiary that develop their activity in another country;
- international contracting with the investment component of leasing or franchising abroad;
- the acquisition of shares or bonds that are issued by a foreign company;

These represent ways of making foreign investments and signify how an investor has at his disposal to put into practice his investment plan abroad.

Regarding the FDI structure, it is essential to specify that it includes the following: direct participation in share capital, reinvested profits, and intra-company loans.

Referring to the policies of attracting foreign direct investment, it can state that the simple realization of a plan, no matter how complex it is, it is a necessary condition, but it is not a sufficient condition for foreign investements. At the same time, the adoption and implementation of some policies are not possible if the economic, legal and institutional premises are not created, because these three form the capacity of a country to attract foreign direct investment [2].

It is well known that every state wants to achieve economic growth, and in this sense, the aim is to create and implement a policy of attracting resources that will lead to economic development. Thus, the attraction of FDI is one of the development objectives established by the overall economic policies and represents the central point of the specific policies regarding the FDI regime and the liberalization of the capital movement.

Through a series of monetary and fiscal policies, the aim is primarily to stabilize the economy, the development of the economy, the reduction of inflation, and the fight against unemployment. Unconcerned of where the institution responsible for attracting FDI is positioned, in order to achieve the proposed objective, it is necessary to coordinate the global economic system of economic policies which includes the following essential elements: correct exchange rate, cote encouragement of amortization, fiscal or customs facilities, stable job conditions and the possibility to hire foreign staff, the conditions of technology transfer, access to the foreign exchange market, export financing at a certain interest rate, infrastructure development [1].

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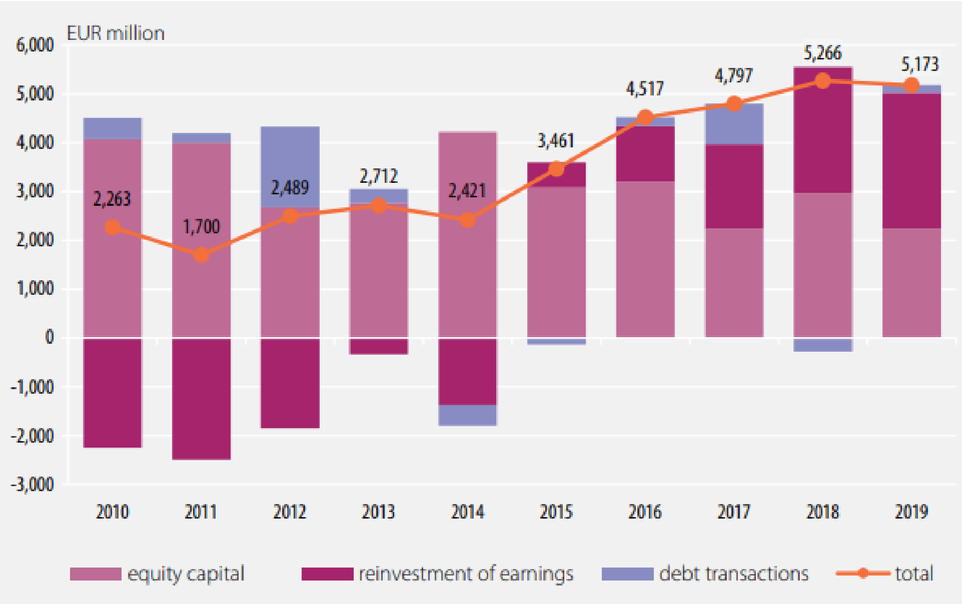
3. The evolution of foreign direct investments in Romania in the period 2010-2019

Except the years 2011, 2014, and 2019, the net flow of foreign direct investments registered in Romania has an ascending trend in 2010-2019. Thus, if in 2010 a value of this indicator was recorded at 2263 million Euros, in 2018 the level was registered at 5266 million euros and in 2019 the net flow of foreign direct investments was 5173 million euros (chart 1).

Regarding the evolution of the components of the net FDI flow, it can be observed that the most significant change was registered by reinvestment of earning, which had an ascending trend from a negative value of 2000 million euros in 2010 to a positive value of over 2500 million euros in 2019. The debt instruments registered negative values in 2014, 2015, and 2018, in the rest of the period recording only positive values (chart 1).

It can be noticed that of all the three components analyzed, the component equity capital contributed the most to the net flow of foreign direct investment until 2019, when it was exceeded by the component reinvestment of earnings. Thus, this indicator exceeded the value of 4000 million euros in 2014, and in 2019, the level of this indicator was around 2000 million euros (chart 1).

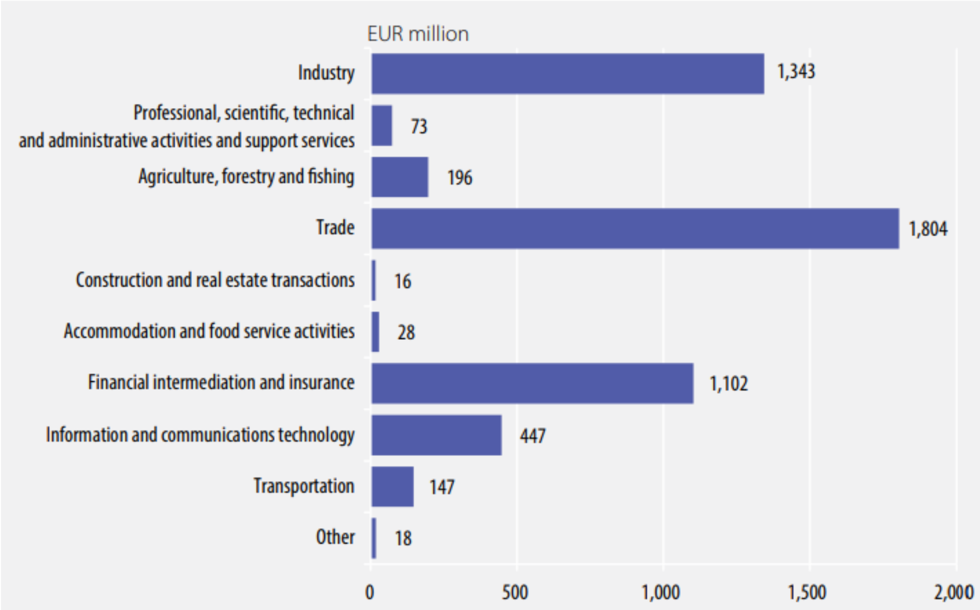
Chart 1. Evolution of the net flow of FDI by components in the period 2010-2019



Source: National Bank of Romania, Foreign direct investment in Romania in 2019, p. 6, available on line at https://www.bnr.ro/Regular-publications-2504.aspx

Regarding the distribution of the net FDI flow by fields of activity, it can be seen that most of this it is oriented towards the sector trade with 1804 million euros, followed by the sectorul industry with 1343 million euros, the sector of financial intermediation and insurance with 1102 millions euros. The sectors with the lowest net FDI flow orientation are represented by accommodation and food service activities with 28 million euros as well construction and real estate transactions worth 16 million euros (chart 2).

Chart 2. FDI net flows by main economic activity

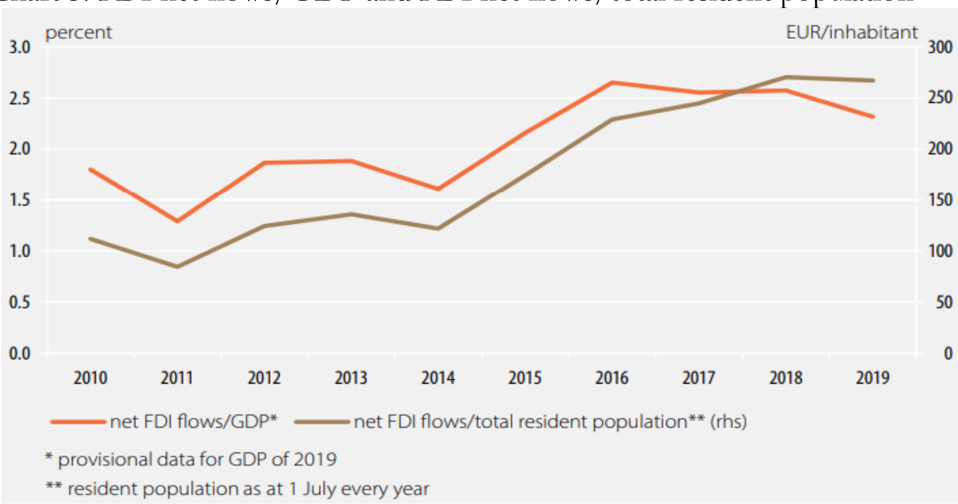


Source: National Bank of Romania, Foreign direct investment in Romania in 2019, p. 7, available on line at https://www.bnr.ro/Regular-publications-2504.aspx

The net flow of FDI relative to GDP had a fluctuating evolution in the period 2010-2019. The most significant contraction registered in 2011, below the value of 1.5% of GDP, and the highest value, over 2.5% of GDP, was recorded in 2016. In 2019, there was a decrease in the net flow of FDI relative to GDP (chart 3).

Regarding the net flow of FDI relative to the total resident population, it can be seen that it registered an upward trend in the analyzed period, except for 2011 and 2014. Thus, if in 2011 it was below the level of 100 euros /inhabitant, in 2018 it reached over the level of 250 euros /inhabitant (chart 3).

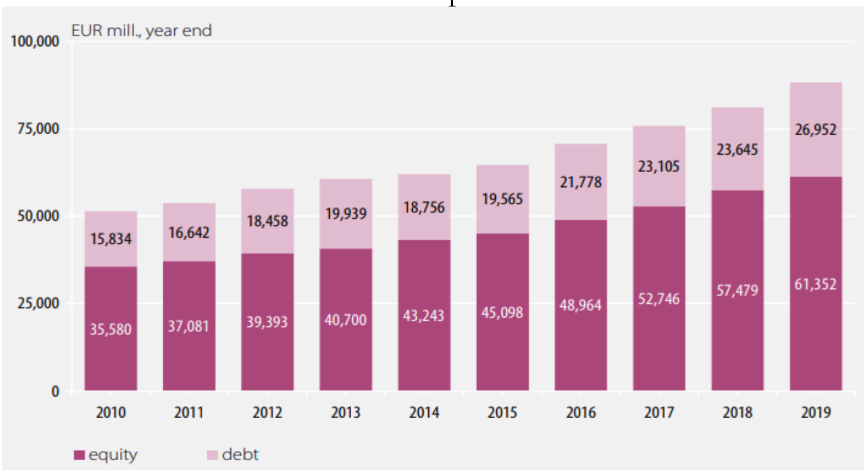
Chart 3. FDI net flows/GDP and FDI net flows/total resident population



Source: NIS, NBR

The total balance of FDI registered in 2010 the value of 51414 million euros and had an ascending trend throughout the analyzed period, reaching in 2019 the level of 88304 million euros. Equity component had the largest share in the total balance of FDI in 2010-2019, continuously increasing from the value of 35580 million euros in 2010 to the value of 61352 million euros in 2019. The debt instruments also had an ascending trend for the most part, from the value of 15834 million euros registered in 2010 to the value of 26952 million euros recorded in 2019 (chart 4).

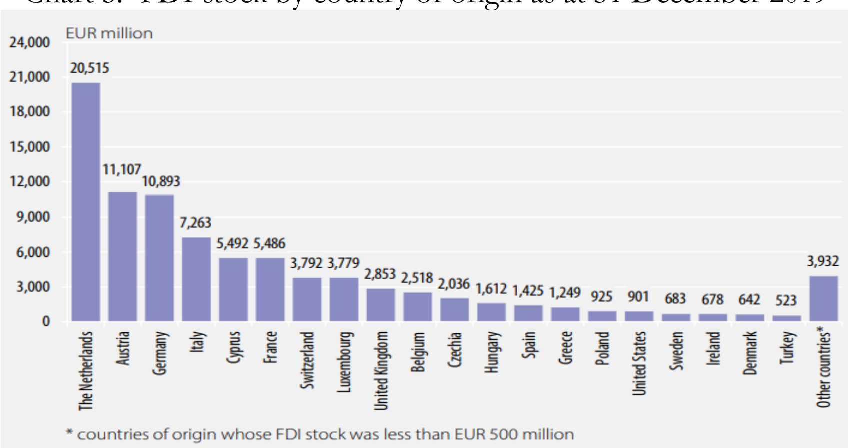
Chart 4. FDI stock components in 2010-2019



Source: National Bank of Romania, Foreign direct investment in Romania in 2019, p. 9, available on line at https://www.bnr.ro/Regular-publications-2504.aspx

Regarding the distribution by country of origin of FDI stock, in a top of the first 5 countries, from which come the holders with the highest values of FDI stock, it can be seen that on the first place are the holders from the Netherlands with 20515 million euros, followed by those from Austria with 11107 million euros, from Germany with 10893 million euros and from Italy with 5492 million euros. At the opposite pole are the holders from Turkey with 523 million euros and Denmark with 642 million euros (chart 5).

Chart 5. FDI stock by country of origin as at 31 December 2019



Source: National Bank of Romania, Foreign direct investment in Romania in 2019, p. 15, available on line at https://www.bnr.ro/Regular-publications-2504.aspx

Attracting foreign direct investment is a challenge and a goal for the various countries in the world economy. The strategies to be adopted in this direction must be as good, efficient, and competitive as possible. The existence of large sale markets and the possibility of cost reductions are not the main factors determining a foreign investor to invest in another country, the investment climate being essential.

4. Conclusions

The economic implications of foreign direct investment on various countries can be analyzed at both the micro and macroeconomic levels. It is important to note that along the economic effects, FDI has also attracted a series of political implications, especially in the context of countries' integration into the European Union.

When a foreign investor decides to invest, he can choose between the different ways of implanting his business abroad. These represent ways of achievment foreign investments that an investor has at his disposal to practice his investment plan abroad.

It is well known that every state wants to achieve economic growth, and in this sense, the aim is to create and implement a policy of attracting resources that will lead to economic development. Thus, the attraction of FDI is one of the development objectives established by the overall economic policies and represents the central point of the specific policies regarding the FDI regime and the liberalization of the capital movement.

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