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FORMS AND MOTIVATIONS OF FOREIGN DIRECT INVESTMENT

Theoretical Article

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Abstract

This study proposes the identification of forms of Foreign Direct Investment (FDI) and analyzes factors influencing FDI motivation. Designing a coherent program to encourage foreign direct investment is based on knowledge of the factors that determine international companies to resort to this type of development: these companies resort to foreign direct investment if they have ownership advantages and internationalization, while another country has locational advantages to the company's home country. Thus, identifying the factors that influence the motivation of FDI is important both at the microeconomic level, local, local authorities and macroeconomic, national, government to develop measures for multiplying FDI .

Introduction

The beginning of the XXI century is characterized by a deepening economic globalization process accelerated, global flows of foreign direct investment (FDI) is one of the main manifestations of this process. Basically globalization has become a part of everyday life of each of us.

At global economy level FDI focuses more than 70 % in the group of developed countries, but the interest in this type of investment is particularly the case in developing countries who need not only foreign capital inflows, but experience modern management know- how and access to markets. On the other hand, between globalization and FDI it exists an increasingly a two-way relation, foreign direct investment being meanwhile one of the causes / factors that stimulate the deepening of globalization, but also the effect / manifestation of globalization on economic plan (Bonciu, 2007).

In the context of the economic crisis FDI were less affected than the capital markets and they can play an important role in economic recovery.

In this study we aim to identify the forms of FDI in terms of how to achieve them and to analyze the determinants that influence the motivation of FDI.

The concept of direct foreign investment

From the methodological point of view but also operational, there are several definitions of FDI. Of these, the most important in practical terms is the definition of the International Monetary Fund (IMF) as it is used by all member countries in the reports that they perform on the balance of foreign payments. The minimum percentage of control accepted by most countries is 10-25%.

The International Monetary Fund definition of FDI is contained in the Balance of Payments Manual (1993), as well as its supplement.

According to this definition, foreign direct investment is the category of international investment that reflects the objective of a resident entity in one economy (direct investor) obtaining a lasting interest in an enterprise resident in another economy (direct investment enterprise).

In our country definitions of FDI are given by National Bank of Romania, the National Trade Register and legislation.

FDI components

Structural analysis of FDI reveals the following three components (Popa, 2012):

a) Direct participation in capital (equity capital or purchases shares of an undertaking in a country other than that of the direct investor) ;

b) Reinvested earnings (Reinvested earnings or the earnings of the investor directly reinvested in the subsidiary where it was obtained) ;

c) Intra–company loans (intra - company loans or short or long term loans between direct investors and subsidiaries or parent companies).

Manifestation and measurement indicators of FDI

From a practical standpoint, the way in which FDI can be achieved, FDI can be (Bonciu, 2012):

- New investments (greenfield) and start from scratch investments that are made in the newly established firms ;
- Investments made in the form of mergers and acquisitions (brownfield) and investments made by providing two or more companies existences (which give rise to new firms) or by buying an existent company (available from the point of view of the law) by another existing company (which usually keeps its name)
- The expansion of several existing companies with foreign capital (e.g. through reinvestment of profits or bringing new capital to the mother company).

To measure the economic phenomenon represented by the foreign direct investment it can be used two correlated indicators, meaning the FDI flows and FDI stocks.

Through flows of foreign direct investment (FDI Flows) means amounts investments made foreign investors over a period of time (usually a year).

Investment flows can be "input " - FDI inflows (which investments were made in a country by non-resident investors) or "output" - FDI outflows (which investments were made by investors resident in a country in another country). FDI flows are recorded annually in net value by subtracting flows from the operations of capital loans of the direct investor and its subsidiaries abroad.

The stock of foreign direct investment (FDI stock) represents the value of capital participants and reserves (including retained profits) belonging to the company adding the value of net debt of affiliates to investing company. Data on FDI stocks are stated at accounting or historical value, reflecting prices at the time of the making of the investment.

At national economy level (country level) the stocks of inputs FDI (inward FDI stock) represents the value of capital and reserves belonging to the economy of the resident companies investing in other countries. In turn outputs stocks of FDI (outward FDI stock) represents the value of capital and reserves located in other countries and belonging to resident companies investing in the country of reference.

In a simplified way one can say that the stock of foreign direct investment referring to stocks input is the amount of foreign direct investment in a milestone date indicated (usually a period of several years).

Identifying the factors that influence FDI motivations

Economic theories , newer or older, indicates that the key factors in determining FDI location for host country, market size, production costs, but particularly natural resources and workforce , both from the economic and politic point of view. All this emphasizes that the theorization of FDI is continuous and increasingly complex.

Thus, Redding and Venables (2004) examine the situation in which individual corporations choose their location. It seems that this decision is negatively linked to production costs and positively associated with market access. Disdier and Mayer (2004) argue that investors will avoid areas where production costs are high and will be located in places that have as the main guarantee access to targeted markets. Moosa (2002) concludes that the results show that countries that are more successful in attracting FDI are those countries that have growing economies, that pay attention to education and research, that have low country risk and that have high return on capital die to the lack of domestic investment in fixed capital.

The decision to invest of many multinational companies becomes increasingly determined by the ability of creation and technological innovation, the so- called "assets created". The existence of these capabilities has become the most important factor between economic determinants of the decision to invest and, therefore, recommends governments seeking to attract foreign direct investment to develop such policies to strengthen innovation systems and broadcast of technologies.

In the next period, it is estimated that the decisive role in attracting foreign investment will be played by a combination of localization issues (including human resources, infrastructure, access to markets), and issues related to the existence of technological capacity and innovation Iacovoiu, 2009) .

Theories on FDI

Stephen Hymer (1976) emphasizes the importance of foreign direct investment on economic development of host countries, particularly in the transition phase. Caves (1996), believes that the efforts made by different countries in attracting FDI due to the positive effects of FDI on economic development. FDI makes the models for internationalization of production, access to foreign markets and influence the labour market by lowering unemployment. Borensztein and Lee (1998) continue the ideas analyzed by Caves (1996) on the role of FDI in host country's economic development but emphasize the importance of technology transfer for development effects of FDI. Hanson (2001) argues that there is weak evidence that FDI generates positive spillovers for host economies. Gorg and Greenaway (2001) conclude that foreign direct investment is a key driver of economic growth and economic development. The reason for this is that in general multinationals are assumed to bring with them best practice or, as a minimum, better practice technology and management. Lipsey (2002) supports this contention of the role of FDI on development and states that there are positive effects, but there is not a relationship between the FDI stock and economic growth. Although many researchers have tried to explain the phenomenon of FDI cannot be said that there is a generally accepted theory. Altomonte and Pennings (2005) test for marginal effects of FDI on the productivity of local firms, for Romania. By this test the authors assess whether the horizontal positive effects of multinationals on domestic firms are endogenous with respect to market structure generated by the entry of multinationals. Blonigen (2006) putting the problem of factors that determine the orientation of the FDI, meaning the motivation to invest , says that fiscal policy and exchange rate evolution in the host country are important , but not decisive , this decision may be influenced by the degree of trade protection or access to basic information for evaluating fixed costs. If a possible depreciation of currency has the effect of decreasing on an asset purchased on the local market, but also it reduces the nominal profit, as confirmed by empirical studies. As regards fiscal policy, the author cited shows that the reduction / elimination of double taxation in the host countries may positively affect investment decision, especially for multinational corporations.

FDI motivations

In order to explain the motivation of direct foreign investment we intend to present the model of Dunning (eclectic paradigm). The theory of „eclectic " is the most extensive approach to FDI , especially internalization theory , performed and perfected gradually over more than 50 years of studies and work by John H. Dunning . The theory focuses on eclectic paradigm , namely a new concept that is a mixture of previous concepts , a fragmented thinking no original ideas that take only significant ideas from different theories or approaches synthesizing them. According to this theory FDI are motivated by three advantages: Ownership advantages; Location advantages; Internalization advantages.

On this basis, gradually emerged typology of multinational companies (MNCs), with the corresponding four major motivations of multinational firms internationalize through FDI:

(1) Resource seeking - investments are made in order to obtain high quality resources at a lower cost than in your home country. In general, the resources concerned are : natural resources , unskilled labour or average skilled, cheaper or specialized .

(2) Market seeking - These investors aim to achieve local or regional markets. Typically these investments are in the areas of production of consumer goods and industrial products. In some cases, providers may be concerned following client companies, for example in the automotive industry. Investors seeking markets often use this measure to

overcome trade barriers, therefore, success in attracting such investors is crucial linked to the existence of liberal trade regimes. It can be said that FDI in this category are motivated by market size, market growth forecast, the company's market share or competition.

(3) Efficiency seeking - This motivation to invest is often found in a stage of maturity of the operations of a foreign investor that initially invests for natural resources or new markets and then consolidates his business through investments aimed at increasing efficiency. Such investments are made in cases where the investor has long-term plans or unlimited if access to regional markets is free, and those markets are well developed. Therefore, this type of investment is found especially in North America (NAFTA space) or the European Union.

(4) Strategic assets seeking - the main source of company competitivity is the fact that multinational firms pursuing a global or regional integration strategy and to ensure competitive power in an unknown environment. These investments can be found when companies decide to purchase certain assets or entering into alliances in order to promote long-term strategic interests. For example, a multinational firm can buy a local company (including participation in the privatization of state owned enterprises) to establish the presence of a target market. Foreign direct investments made for this purpose are found especially in developed countries.

To be noted that FDI is not made on the basis of a single category of motivations , most times it is found as combinations .

Economic motivations orientation on FDI are based on expectations regarding obtaining benefits as (Bonciu, 2007) :

a) Creation of jobs. Foreign direct investments create new jobs, but maintaining present employment should also not be neglected, as the employment rate is an easy to follow indicator in the absence of foreign investments and is the focus of attention for the governments of beneficiary countries or for mass media.

b) Increase of the amount of capital invested in the economy. In many cases, local capital markets do not have sufficient resources to meet capital needs arising from major projects. Moreover, access to foreign currency needed for purchasing equipment and technology is not always available. Foreign direct investments solve these problems because they are a direct source of foreign capital.

c) Increase of government budget revenues. Foreign direct investments represent new contributors to the economy. Even if investors benefit from certain tax incentives, government budget revenues increase due to increased revenues from payroll taxes (as the result of the creation of new jobs or of higher wages when the number of jobs was maintained unchanged). However, in the case of export-oriented foreign direct investment, their activity leads to an increase in foreign exchange inflows in the beneficiary country.

d) Access to modern management. The infusion of technology can have stimulating effects for the economy by promoting local innovation and spreading modern technologies in other companies than the one where the initial investment was made.

e) Access to modern management. Foreign investors bring modern management practices that they share with local staff.

f) Stimulating domestic investments. Foreign direct investments may lead to an increase in domestic investment, as national companies may become suppliers of foreign investors, gain access to their distribution infrastructure or just be stimulated to invest in order to face competition arising from foreign investment.

g) Access to markets and export increase. Foreign investors bring not only investments, but also access to distribution channels and expertise in global market sales.

h) Improved qualification of workforce. Foreign investors develop activities which usually need high skilled labour. Therefore, they are interested in increasing the level of training in the workforce. As the employees of these companies are moving to other sectors or start their own business, a diffusion of acquired knowledge occurs in the entire economy of the beneficiary country.

i) Supporting privatization and restructuring. Certain types of privatization require large amounts of capital and the ability to perform complex economic analyzes. Foreign investors can help in this respect, not only by their ability to raise large sums of money for the purchase of an enterprise, but also by the capacity to make further investments and to bring quickly efficiency in the privatized company. However, in addition to the positive effects mentioned above, the participation of foreign investors in privatization may also lead to significant reduction in the number of jobs in privatized companies.

j) Improving efficiency and competitiveness in local companies. Companies owned by foreign investors could bring opportunities on a local market. Local companies may become suppliers to these foreign companies, gain access to new technologies and diversify their production or they may be stimulated by a high quality competitor. In all cases, local firms should be able to raise the quality of products and management with medium and long term positive effects on competitiveness.

It is important to remind that foreign direct investments do not automatically lead to the beneficial effects mentioned above. Some direct investments produced such effects, but others were short term investments, such as investments that benefit from granted facilities. Therefore, even if the promotion of foreign direct investments is seen as a tool for achieving any of the purposes mentioned above, granted facilities need to be adapted to the pursued objectives. Especially important is to acknowledge that foreign direct investment is just like any other economic transaction made for gain purposes. Therefore, one should make sure that parties make a reasonable profit from their business.

Factors influencing the motivations of FDI in Romania

Relaunching the Romanian Economy, Labour and Education, Management of Public Institutions, Infrastructures, Energy Sector and Business Environment, Taxation, absorption of EU funds, are key factors for foreign investors. The Foreign Investors Council (FIC) publishes a White Book that provides a comprehensive overview of Romania's investment climate and specific recommendations for improving the business environment.

Related to ease of doing business in accordance with Doing Business Report 2013, Romania ranks 72 of 185 countries in the annual ranking of business conducted by the World Bank. In the last 12 months to facilitate access to credit in our country, after range of real estate that can be used as mortgage was expanded. Also, starting a business has been simplified by reducing the time needed to obtain the tax record of tax administration agency. Of the 10 indicators taken into account, our country stands at better access to credit, which ranks 12 and the ease of opening a business (rank 68). Singapore leads in the Doing Business ranking, followed by Hong Kong, New Zealand, USA, Denmark, Norway, UK, South Korea, Georgia and Australia. In this ranking, Romania is lagging behind Bulgaria (66), Czech Republic (No. 65), Hungary (No. 54), but is in front of Italy (No. 73) and Greece (No. 78).

Conclusions

In conclusion, the decision to invest in a particular country is based on thorough analysis of various factors , economic, social and political, the weight of each depending on the motivation of the foreign investor , motivation , in the current context of market economy overall , when any advantage may erode its very fast pace, acquires special significance . It is indicated that economic factors to influence the reason a multinational company is willing to invest or to provide an increase in its activity, including of the actual default mode of investing.

In the context of globalization, foreign direct investment is the primary way to participate in global economic trade and at the same time the main way to improve the relative position in these exchanges.

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Table NO. 1

Synthesis on the theories on FDI

THEORY	CAUSES
Theory on recovery of market imperfections	market imperfections (imperfections in the goods, factors of production and the economy of scale)
Product life cycle theory	cost-competitiveness, in the product standardization phase
The theory of oligopolistic competition	- self-defence action in the realm of oligopolistic competition ("oligopolistic reaction");
	- the best use of the advantages held by the Company ("absolute advantage").
Monopoly advantage theory	- avoid competition; - use your own advantages (higher knowledge and economy of scale).
The theory of production's internalisation	- internalisation of imperfect external markets where involved costs are lower than the costs of markets' organizing.
The eclectic theory	- getting the biggest possible gain from the internalisation of own knowledge and the monopoly advantage.

Source: Iacovoiu (2009) - Investiţiile străine directe între teorie şi practică economică. Analize comparative/ Foreign Direct Investment between economic theory and practice, p. 40

Table No. 2
Indicators, Romania

ROMANIA	
Ease of doing business (rank)	72
Starting a business (rank)	68
Procedures (number)	6
Time (days)	10
Cost (% of income per capita)	2.8
Minimum capital (% of income per capita)	0.8
Getting credit (rank)	12
Strength of legal rights index (0-10)	9
Depth of credit information index (0-6)	5
Public registry coverage (% of adults)	14.0

Source: *Processed table on the basis of* Doing Business 2013, p. 190, retrieved from http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf