

Analysis of Foreign Direct Investment Determinants at the Level of a County in Romania

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ABSTRACT

The attraction of the foreign direct investment (FDI) represents a major challenge both at macroeconomic level from the perspective of the central public authorities and at the microeconomic one from the point of view of all entities involved in this process. While the FDI attraction problem is widely debated in the specialty literature at macro level, at micro level the representative solutions and models are still being searched for. The main objective of the realized research was the identification and analysis of some FDI attractively variables, on the example of a county in Romania. Based on the obtained results we proposed the development of a model, available both for the potential investors and for other regions with lower performances in order to improve the situation.

KEYWORDS: *foreign direct investment, county, determinants, Romania*

JEL CLASSIFICATION: *O16, R53, M21*

INTRODUCTION

The actual context of the socio-economic environment forces the entities, regardless of the capital's size, nature or the activity domain, to resize its policies on medium and long term, both from the strategically point of view and from the operational one. One of the main directions proposed to be analyzed is the one of attracting and developing investment projects, especially the ones supported through FDI. This option takes into account the fact that FDI represents the solution for the existence but also for the development, for the competition's boost and the creation of new jobs.

The FDI attraction represents a complex process that implies all subcomponents of the organizations and needs flexibility, social responsibility, dynamic and cooperation capacity, both on internal and external plan. At the level of the private entities these characteristics are easier to be assimilated and integrated by means of some modern management models, permanently adapted to the markets' and resources' evolution. Due to some causes like the lack of some professionalized staff, organizational inertia, the influences in the political environment or the frequent changes of the legislative framework, the public entities, no matter if we refer to the local or central ones, often have difficulties in attracting FDI.

The statistics regarding the FDI are frequently realized based on some diversified criteria that take into account: the geographical space, the membership in a certain state, region or

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county, activity domain or FDI recipient organization type. From the geographical point of view the relevance frequently presents the FDI dimension and structure at the level of the county or region. This approach type has the advantage to include the realized FDI both in the public environment by means of partnerships, and in the private one, to take into account all the assigned sums and to fall in a common, officially recognized reporting system.

In the last two decades, Romania passed, from the point of view of the FDI flows, through favorable periods (2007 – 2008), characterized through very high FDI volumes in report with other states, but also through unfavorable periods (2009-2011), in which the FDI volume was very low in comparison to the real possibilities (Popovici, 2011). On internal plan, at the region's and even county's level, the situations were even more discrepant, meaning that some counties permanently attracted significant volumes of FDI and counties, which although made considerable efforts didn't manage to attract FDI only in very low values.

In this context, the main objective of the present paper is linked to the detailed analysis of the FDI attraction process at the level of a county in Romania, respectively the Prahova County. According to the presented statistics, at the level of the years 2011, this one was in the top of the counties that attracted FDI, although it is part of the South Region, a region situated in the other extreme regarding the economic performance and regional development (Romanian Government, 2011).

1. LITERATURE REVIEW

The FDI complexity determined ample preoccupations from the theoretical and practical point of view regarding the conceptual definition and the establishment of a components' optimal structure. FDI represents it's through shape and economic content a form of the economical and international cooperation relationships materialized in financial and resources flows, which go beyond the juridical and economical limits of the states. The criterion which distinguishes the foreign investments from the internal ones is the fact that the investor and the recipient have their residences in foreign countries. There are integrated in their structure financial, scientifically, technological, informational flows, equipments, tools, managerial and organizational experience, which are transferred through the investors in different countries, named investments' recipients.

FDI is a category of investment that reflects the objective by a resident enterprise in one economy of establishing a lasting interest in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. Lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence on the management of that enterprise. Direct or indirect ownership of 10 per cent or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is considered to be evidence of such a relationship (OECD, 2008).

According to IMF (2007), FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the

investor's purpose is to gain an effective voice in the management of the enterprise. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise; the IMF suggests a threshold of 10 per cent of equity ownership to qualify an investor as a foreign direct investor.

While the main references regarding the FDI concept identify a relatively similar approach, a frequently encountered problem is the one of the data relativity regarding the FDI published by different international organizations (FMI, OECD and UNCTAD) but also by the central banks respectively the national statistics institutes (Baicu, 2006). In this sense we appreciate that the data regarding the FDI available both at international level but also at national one must be assessed in an aggregate manner, by means of the correspondences between the different statistics in order to avoid the possible contradictions caused by different quantification methodologies.

The FDI contribution might be analyzed on many directions like the economic performance, the regional development, the number of new work places, the number of new created entities, the number of realized investment projects etc. If in the plan of these consequences the statistics offer detailed information, we appreciate that the elaborated study of the FDI flows' attractively factors is of interest.

In the same direction, we must mention that attracting FDI is the process to be developed in accordance with environmental standards. In (Ciocoiu, 2011) it's specifies although concepts such as "green products", green investments", green energy" were used in recent decades, the concepts of green economy, green growth and green society was triggered on the international agenda by the financial and economic crises of 2008-2009.

Performance on investment projects is dependent by the harmonization between development strategy and organizational culture. An organisational culture helps those who belong to it with regard to the perception and understanding of certain events, phenomena, organisational situations, and determines them to act in ways that are accepted by the group. (Verboncu et al., 2010)

2. RESEARCH METHODOLOGY

The research measure regarding the FDI attractively factors identification at the level of a county in Romania takes into account the testing of a model proposed by the authors. This model is structured on five factors categories considered to be relevant for the FDI stimulation, each category being analyzed by means of the quantitative evolution in the last period. The categories selection took into account the potential support for the FDI, the information's availability from the statistical point of view and their relevance in the hierarchy context from the point of view of the regional development.

According to these criteria we proposed the model presented in figure 1.

The choice of the Prahova County as a case study for the present paper took into account the following arguments: from the point of view of the FDI flows it is situated in the first places in the national classifications, it benefits of a favorable geographical position with

diversified natural and anthropogenic factors, it detains a complex economic structure and it significantly contributes in the regional development of the region it is part of.

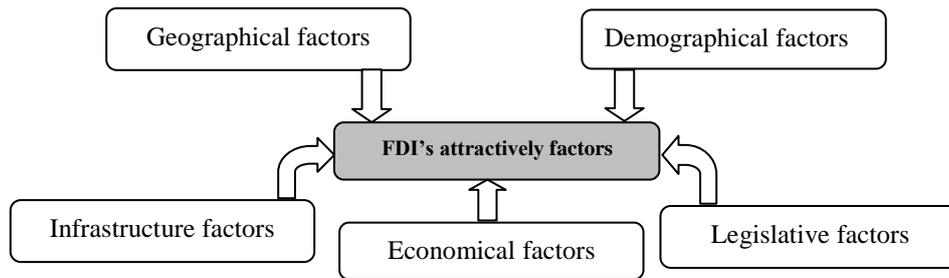


Figure 1. Factors structure of proposed model

3. RESULTS

Situated in the central part of Romania and having a surface of 4716 sq. km., the Prahova County represented in the last 10 years one of the main “actors” for the FDI attraction. Thus, according to (Vass, 2012) Cluj, Mures and Prahova are the counties with the highest new, inland and foreign investments realized in 2011. If we take into account the type of the invested capital: at the level of the counties Cluj, Olt and Prahova there have been realized the biggest new inland investment projects, and regarding the FDI flows the counties Mures, Cluj and Prahova have been the biggest recipients in the year 2011. We have presented in table nr 1 the quantitative statistic information regarding the situation registered at the end of 2011.

Table 1. The investment flows at the level of the first three counties in Romania

Indicator Position	New foreign and domestic investments (million Euro)		New domestic investments (million Euro)		New foreign investments (million Euro)		Number of new jobs created	
	1	Cluj	178.7	Mureș	144.3	Cluj	120.37	Timiș
2	Mures	156.4	Cluj	58.3	Olt	49.22	Prahova	960
3	Prahova	73.3	Prahova	30.7	Prahova	42.53	Satu Mare	960

Source: adapted from Vass (2012)

The statistic information (Vass, 2012) highlights the position in the first three places of the Prahova County in the classifications linked to the investment flows, an aspect that motivated a deep research of the factors generating this situation.

The first factors category, analyzed according to the model, is the one linked to the geographical aspects. The Prahova County is situated in the central – south part of Romania, in the South Region, on the rivers Prahova and Teleajen. It is bounded by the counties: Ilfov, Ialomita (south), Dambovita (west), Brasov (north), Buzau (east). Between these limits it occupies a surface of 1.98% of the Romanian territory. The county includes two county residences, 12 towns, 90 townships and 405 villages (Consiliul Judetean

Prahova, n.d.). The relief is disposed on 3 stages with a north-west / south-east development of the altitudes from the north to the south, which include mountain, hill and plain areas. The alternation of these three relief forms represents a significant investments attraction factor. Thus, the mountain area especially attracted major investments in the tourism domain and we may remind here: the development of some accommodation units, the rehabilitation of the existing hotels, the creation of some supplementary recreation facilities (sports centers, spa centers etc.), but also investments which take into account the supplementary capitalization of the natural resources (tourist routes and circuits). The county's hill area represented an attraction factor for the investments by means of the possibility to extend the vineyard and wine production industry, an industry with tradition in the county. The concretization of this factor permitted the apparition in the county's east area of some investments projects in the field, a part of them being financed in corporate system and others with European financing.

The plain area of the county, through the qualities of the soils and the offered facilities permitted the stimulation of the agriculture and implicitly of the investment projects dedicated to the field. In this sense there might be highlighted the projects that took into account the acquisitions of the documents and the creation of some storage spaces for the agricultural products. All these aspects are also favored by moderate continental climate, differentiated by relief steps with annual air temperature averages situated between 2 degrees Celsius on the mountains and 10 degrees Celsius in the plain areas.

The second factors category analyzed within this paper was the one oriented on the demographical aspects. In this sense we can mention the fact that the Prahova County has a population of 814.689 inhabitants and a density of 172.8 inhabitants / sq.km, superior values compared to the average at national level (Consiliul Judetean Prahova, n.d.). The FDI flows attraction from the demographical perspective is also sustained by two other factors, namely: the county's urbanization degree situated around the value 50.3% and the diversified structure of the occupied population presented as it follows: 31.0% industry, 21.3% agriculture, 9.2% constructions, 5.9% transports, 12.7% commerce, 4.0% education and 15.9% services (Directia Judetean de Statistica, 2012). This dispersion of the values gives the county the image of a good investments recipient by means of the fact that there exist human resources almost in all domains, from which the potential investors might complete their lack of personnel.

We have also considered of major interest for the completion of the analysis model of the attractively factors the infrastructure domain. If we refer to the road infrastructure, the existence of the national, county and local road system, which crosses the county, the nearness to the country's capital, the relatively low distances between the main cities, represented major interest points in the analysis of the investors' options. Nevertheless, the fact that at the level of the entire county there doesn't exist any highway, as well as the relatively difficult access to the mountain areas, especially in the season periods, limitate the investment initiatives. From the point of view of the railway infrastructure the most relevant aspects are linked to the fact that although there exists a recently modernized network crossing from the North to the South, not all localities are connected to this network and the infrastructure's quality is limited.

The county's educational infrastructure, in fact the suppliers of human resources for the investors, is characterized by a very good territorial dispersion at least at undergraduate level. From the academic perspective the situation is a bit different, generated by the fact that there exists only one public university, concentrated on the domain of the extracting and processing oil, and the private initiatives are still at the beginning. The direct consequence of the situation is also reflected in the high number of persons, delocalized from the point of view of their jobs, to the Prahova County, from other limitrophes, especially Bucharest.

Another researched point of interest was the medical infrastructure, respectively the number of hospitals and the quality of the performed medical act. Unfortunately the obtained results did not confirm the expectations, the relatively low number of medical units, the lack of high specialized personnel, the reduced investments in the equipments of these units practically limit the investors' possibilities, which especially focus on this type of infrastructure.

The most relevant factors in attracting the FDI are the ones in the economic sphere. The realized researches in this direction included on the one hand the factors' diversity but also the existing connections between the different evaluated aspects.

The first analyzed indicator was the BIP per inhabitant (expressed in Euro) at the level of the counties in Romania. The statistics at the level of the year 2010 highlight a value of 5950 Euro / inhabitant, which situates the county in the top 10 in Romania. In the context of the region it takes part of the county is situated on the first position and at a significant difference from the following position occupied by Dambovită with a value of 4015 Euro / inhabitant. The unemployment rate at the level of the year 2010 is not an advantage from the point of view of the position in the hierarchy, the value of 8.4% being a very high one in comparison to Bucharest (2,8%) considered a standard in this sense. The net registered loan at the level of the year 2010 was of 311 Euro / month, a good value, above the average at national level, which on the one hand highlights the economic potential of the county and on the other side it also reflects a higher cost of the working force (Romanian Government, 2011).

Another analyzed indicator was the one linked to the number of created industrial parks. From the statistical point of view the Region South is superior in this quantified aspect, respectively 19 created industrial parks, in comparison to the only 14 created in the Region Center or the 3 created in the Region West. Out of these, at the level of the Prahova County there existed in 2010, ten industrial parks, situated in the south area, concentrated around the county residence (DCLZAASPSA, 2010). The existence of these parks, respectively the occupation degree of over 80% offer to the investors the faith that on the one side there exist favorable previous experiences, but also that there still exist increasing and development reserves.

Another important factor in the economic perspective is related to the possibility of developing brownfield projects. According to the (InvestorWords, n.d.) the brownfield investments represent the purchasing of an existing production or business facility by companies or governmental agencies for the purpose of starting new product or service production activity. This type of investment does not involve the new construction of plant operation facilities. Prahova County has significant resources for development of brownfield projects investments in urban areas, such as Azuga, Busteni, Ploeni or Ploiesti

cities, as a result of forced industrialization process in the period 1980 to 1990. In this case, their location, access to existing infrastructure / transport and utilities, and sometimes lower land prices are the main advantages. (Bazavan, 2012)

The last analyzed category of FDI attractively factors was the one oriented on the attitude of the local and county public authorities towards the investors' intentions. The registered results confirmed the fact that the representatives of the authorities were open and supported the investment projects. The analyzed indicators refer to the medium duration of response to a request, the duration of obtaining the approvals and authorizations, the projects' additional costs, like the ones specific for the utilities or for the access infrastructure, the obtained values being significantly below the national values' average.

The results of the realized research highlighted the fact that each category of the 5 analyzed ones includes relevant factors for the FDI attracting at the level of the Prahova County, but in the same time there are many of them that might be considered inhibitors for the investments processes.

The major potential in attracting FDI of the Prahova County is ensured by the synergy of these factors, by the fact that the great part of them are complementary, which offers the possibility of eliminating some differences.

CONCLUSIONS

Although the process of FDI attraction at regional level is dependent on the national policy and strategy, there also exist initiatives, respectively local actions, which developed in a coherent manner, might stimulate the investors' interest. The proposed model based on the five categories presents utility on the one side for the local authorities' representatives and on the other side for the potential investors.

Regarding the first category it should be mentioned that these ones might focus their actions the capitalization of the strengths but also on the elimination of the differences in comparison to other counties or regions. Given that the FDI volume at national level is decreasing, the counties' competitions in attracting them becomes tougher, the success belonging to the ones who best fulfill the investors' requests.

On the other side the investors became more selective regarding the investment decision. The limiting of some advantages like the reduced cost of the working force or the access to excess resources determined the investors to also search for other facilities, like the ones of fiscal or geographical order.

The appliance of the model at the level of a representative county in Romania in matter of the FDI flows confirms the established hypotheses. The continuance of the realized research will also take into account the quantification of each analyzed category's influences by means of an econometric model.

The decentralizations of the decisional process, considered to be a consequence of the European integration process, transfers the responsibility of the FDI attraction at local or regional level, a context in which the performance will only belong to the ones who know how to correctly anticipate both the investors' intentions and the markets' evolution.

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