The Determinants of Foreign Direct Investment Inflows in Romania

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ABSTRACT
FDI is a key element of a country's economy, a high level of FDI (foreign direct investment) being seen both as an extremely important determinant of economic growth and as a sign of successfully implemented economic policies. Therefore, the determinants of foreign direct investment itself are of great importance to any country that wishes to attract investors and boost its economy. The aim of this paper is to research and analyse many different determinants of foreign direct investment and then compare the findings to the determinants that currently influence the investors' decisions in Romania. The different determinants were used in order to create an overall picture of the global situation regarding investors' expectations. We then further analysed the current situation in Romania and checked for differences in the context of the world's rising geopolitical tensions, fast pace of the technological transformation, and the movement towards sustainability.

KEYWORDS: *category, factor, FDI, influence, OECD.*

JEL CLASSIFICATION: *F21, F23, P45.*

1. INTRODUCTION

Foreign direct investment is one of the economic concepts that are considered as determinants of the economic development of countries in the context of a market economy. In other words, FDI is a key determinant of economic growth and technological development, because the very transfer and rapid and efficient adoption of global best practices are the essential features of rapid economic development.

The determinants of foreign direct investment are any factors that influence, positively or negatively, the level of FDI in a country. They can be categorised according to a number of criteria, such as: their impact on the inflow of FDI, the type of influence (positive or negative) they have on foreign direct investment, their relationship with FDI, whether they are direct or indirect determinants, etc. (Seon et al., 2024).

Since FDI are very important and have such a powerful impact on the economy of a country, the determinants of foreign direct investment should, in turn, be studied with a high degree of attention in order to learn what actions attract investors and to ensure a stable and continuous flows of FDI. Based on these considerations, we can formulate the objective of this paper. The research question is as follows: What are the most important foreign direct investment determinants that have either a positive or a negative influence on the flows of FDI in Romania?

To answer this question, we started by creating a comprehensive collection of determinants of foreign direct investment that influence FDI flows at a global. The determinants of FDI were

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divided into two major categories: economical determinants and non-economical determinants. The most important of the economical determinants is the market size of the host country, the trade openness of the economy, and the inflation rate, while the noneconomical determinants include a multitude of factors, from the infrastructure and the natural resources that a country has in its possession, to different aspects of the population and the culture of the host country (Tocar, 2018).

We also researched different restrictions that countries have in place and the way that foreign direct investment interacts with these restrictions, as well as the current problems that many investors are faced with in the decision-making process in the current day and age.

We ended the article by checking which of the previously identified determinants are actually present in Romania and the way they influence the flow of foreign direct investment, according to current investors.

2. LITERATURE REVIEW

2.1 Determinants of foreign direct investment

Before listing the main identified factors, it is important to categorise them. Tocar (2018) distinguishes between two broad categories of determinants of foreign direct investment, namely: economic and noneconomic factors. Among the most important economic factors mentioned are: the size of the market (often also referred to as the size of the economy), the openness of the economy, the inflation rate, and labour costs.

Non-economic factors include all other factors, the most important of which are infrastructure, natural resources, technology, political, human, and cultural factors. These are the main determinants that we have to describe and explain how they affect the level of foreign direct investment.

Market size is the traditional determinant of FDI and is considered the most commonly used variable for testing hypotheses about FDI (Dellis et al., 2017). Market size is usually measured by Gross Domestic Product (GDP), per capita income, and population size, or is equated with growth prospects. Studies show that market size is one of the most important factors that investors consider when deciding to enter a foreign market, both for developed countries (Dellis et al., 2017) and transition countries (Popovici & Calin, 2014), with developing countries being sought after mainly due to their lower costs.

Mistura and Roulet (2019) argue, in this regard, that countries with larger domestic markets tend to receive more foreign direct investment, especially of a horizontal nature, due to higher demand potential and higher returns to scale. Horizontal FDI occurs when firms duplicate the same stages of production in different countries due to higher returns to FDI relative to trade. Larger host country markets allow horizontal FDI to exploit economies of scale at the enterprise level, bypassing important trade costs (tariffs and trade policies, and transport costs), in industries with low economies of scale at the enterprise level. Larger markets are natural candidates for FDI in services, both for industries that tend to follow the development of other industries (e.g. banking) and for those industries with high fixed costs (e.g., telecommunications).

The second economic factor is the degree of a country's trade openness, which normally reflects its trade policy in terms of border restrictions and multilateral agreements that

facilitate the exchange of goods between signatory countries. By influencing the intermediate product markets of multinational companies, trade policies are also expected to affect foreign direct investment (Popovici et al., 2021). The impact of trade openness on FDI may differ, depending on foreign exchange legislation, the method and level of capital taxation, or the type of investment realised: local market or export-oriented (Busse & Hefeker, 2007). In general, it is assumed that countries with a higher trade openness index will allow the import of technology, which will further improve knowledge diffusion and increase competitiveness (Silajdzic & Mehic, 2015).

A positive impact of trade openness is reported in both advanced economies (Dellis et al., 2017) and developing countries (Campos & Kinoshita, 2008).
Mistura and Roulet (2019) suggest, however, that this relationship is not so straightforward. Trade and FDI are likely to be complementary in vertical FDI. This type of FDI arises when companies distribute different stages of production in the value chain across different economies in order to exploit differences in the relative proportions of factors in the respective countries. Investments of this type aim to reexport products either to the home market or to other countries.

However, exporters are often allowed to import duty-free (with the exception of services), which can result in higher levels of trade openness due to an increase in the import account partly resulting from higher vertical stocks of FDI. In this regard, we would expect vertical FDI and trade to act rather as complementary activities, as export-oriented investors always seek both favourable export and import regimes when deciding where to locate, although the extent to which one affects the other is less clear.

Multiple other studies realised in Malaysia by Ang (2008), Choong and Lam (2010), Tang et al. (2014), Kinuthia and Murshed (2015), Hussin et al. (2016), and Siew Yean et al. (2018) point out that market size and trade openness have a positive impact on FDI are usually the most important economic aspects in terms of the country's FDI inflows. The articles by Khan and Nawaz (2010), Hakro and Ghumro (2011), Awan et al. (2011) and Rehman (2016) suggest that the two aforementioned determinants of FDI are also highly important in Pakistan, having a significant impact on the inflows of foreign direct investment.

Two different studies concerning the Organisation for Economic Cooperation and Development (OECD) countries by Alam and Shah (2013) and Economou et al. (2017) also confirm that market size and trade openness are two of the most important factors that investors consider when making the decision on whether to finance or not businesses in foreign countries.

The third economic factor is the inflation rate, one of the most widely used indicators of macroeconomic stability and economic health (Popovici et al., 2021). Inflation is the traditional variable that is symbolic of economic issues and the failure of the central bank and the government to restrain the money supply and balance the budget. In empirical studies, inflation rate has been measured by consumer price index (CPI) and wholesale price index (WPI) (Kumari & Sharma, 2017). Popovici et al. (2021) state that price stability implies greater certainty about the economic outlook, lower investment risk, and higher credibility of government policies, which is associated with higher FDI inflows. However, the literature provides mixed results, as so far studies report all possible combinations of price stability and FDI, with no link to the level of development. A negative impact of inflation on FDI is found, both with a significant coefficient (Busse & Hefeker, 2007) and with an insignificant

coefficient (Leibrecht & Riedl, 2010). While papers by Singhania and Gupta (2011), Shylajan (2011), Sahni (2012), and Karmali (2013) suggest that inflation rate has a high impact on the inflow of FDI in India, whether the relation between the two is positive or negative, Madaan and Chwodhry (2016) argue in their paper that inflation is actually insignificant to the flows of FDI in India.

The last factor on the economic list is labour costs. These costs reflected in the level of wages are often considered as one of the main determinants of FDI inflows, with low wages, usually suggested by the minimum wages per economy of different countries, being considered an advantage in attracting foreign enterprises due to the reduction in production costs (Tocar, 2018).

However, the methodology for forming the variable is different: Hayakawa et al. (2013) use the average wage level for manufacturing workers, Mateev (2008) uses the percentage change in the overall labour cost, Khachoo and Khan (2012) apply the natural logarithm of the wage rate, while Riedl (2010) uses real unit labour costs. All of the aforementioned research obtained significant results with a predominantly negative sign of the relationship, as expected.

Next, we must discuss the noneconomic determinants, the first in this category being the infrastructure. The provision of infrastructure is a prerequisite for facilitating investment and reducing production costs (Anyanwu, 2012). In testing the determinants of FDI, a distinction should be made between telecommunication, transport, energy, and social infrastructure. Due to data availability, studies usually include only the first two types of infrastructure (Popovici et al., 2021).

Telecommunication infrastructure development is a factor of significant importance for FDI, especially in developing countries regardless of their location. Peres et al. (2018) find a positive and significant impact of infrastructure in both developed and developing countries, expressed as the number of telephone lines (both fixed and mobile) per 1,000 inhabitants. It should be noted, however, that for OECD member countries, direct investment inflows are not conditioned to the same extent by the quality of the telecommunication infrastructure as for other countries.

In terms of energy infrastructure, Kumari and Sharma (2017) found that host countries with good infrastructure attract more FDI inflows. Good energy infrastructure is one of the main priorities for foreign investors, as it means efficient business operations in the host country. The efficiency of energy infrastructure can be measured by the index of electric power consumption per capita (kWh) and its equivalent in litres of oil.

Sahoo and Dash (2009) suggest that the effect of transport infrastructure quality on FDI is less well assessed due to data availability, but a positive relationship is evident in most of the papers that also consider this factor. Mainly, the quality of transport infrastructure is provided by: railway density per 1,000 inhabitants, freight transport (million tonnes per kilometre), and paved roads as a percentage of total roads.

Information and communication infrastructure is more important for foreign investors than transport or power generation capacity in Central and Eastern European countries. Following the study by Popovici et al. (2021), they expect infrastructure variables, both transport and

communication facilities, to be significant in attracting FDI, regardless of the level of economic development.

In terms of natural resources, Mistura and Roulet (2019) argue that countries with an abundance of such resources are likely to attract foreign direct investment in search of resources. This type of investment is mainly an export-orientated investment made to gain access to certain natural resources or to secure a stable supply of natural resources that contribute to the company's competitiveness. While resource-rich countries will typically receive resource-seeking foreign direct investment, the abundance of natural resources can also crowd out resources for other sectors, diverting investment away from manufacturing sectors, for example, and imposing a certain type of de-industrialisation or relatively low competitiveness on these sectors.

Popovici et al. (2021) also suggested that investors are motivated by the possibility of accessing physical resources. Natural resource endowments have played an important role in attracting FDI since the beginning of the industrialisation process, as they ensured the supply of the required raw materials in a greater quantity or at lower costs than in the home country. This finding is documented in Eastern Europe and Central Asia, where the costs of exploiting natural resources are lower.

On the other hand, Asiedu (2013) noted in his research a negative relationship between cross-border foreign direct investment and natural resources, partly as a result of fluctuations in natural resource prices, which imply higher risks for foreign investors who are not constrained by such investments.

Technology, although we would consider it to be an important factor that helps to attract FDI, is rather in a negative relationship with the level of FDI. In his paper, Tocar (2018) noted that it is well known that foreign direct investment is considered by developing countries as the main way to facilitate technology transfer from developed countries and to bridge the technology gap.

It is rather the technology gap that attracts foreign direct investment, with investors preferring their own technology to technologies already used in the host country.
There is no doubt that the political environment (political regime, stability, risk, etc.) influences uncertainty in foreign investment decision-making. Of this group of factors, one is prominently mentioned in most of the papers written on this subject, namely corruption.

However, the results on its impact and influence on FDI are divided (Tocar, 2018). Some studies such as that of Lucke and Eichler (2015) conducted between 1995-2009 on a sample of 65 countries, which showed that for developed countries investors prefer the level of corruption to be higher than in the investor's home country, while for developing countries a minimum level of corruption is desired.

Other papers such as that of Peres et al. (2018) who documented the relationship of corruption with the level of foreign direct investment between 2002 and 2012 on a sample of 110 countries, research whose result represents the opposite of the study analysed above, with corruption being more desired in developing countries and more avoided in developed countries. In this sense, we can say that political factors have a strong impact on foreign direct investment, but we cannot assess a clear picture of the influence of corruption on FDI,

because the relationship between corruption and FDI, whether positive or negative, depends significantly on the geopolitical context.

Tocar (2018) emphasises that the human factor is also one of the most important factors influencing FDI location decisions. This is driven by the fact that the demand for a market is formed by consumers and depends on the purchasing power of the population. Humans also form the labour force of the future enterprise, the level of professionalism of the residents affecting additional costs and influencing management decisions. Therefore, the human factor influences investors' decisions on different levels of future activity, from production to the sale of products and services. The human factor can be analysed from three different points of view when it comes to its impact and influence on a country's foreign direct investment inflow: population, education, and unemployment rate.

The most common human factor aspect in the literature is the population of the host country. Mateev (2008), using World Bank data, analysed the impact of population as an expression of local consumer demand. The result of his study was positive, showing that population has a positive impact on the level of FDI. The second important aspect about the human factor is education, which is of particular importance for the future labour force and has a significant impact on the investment decision for a foreign investor. Education can also be analysed from several perspectives.

Mateev (2008) analysed education through the percentage of the population with post-secondary or higher education, Arbatli (2011) used the average years of schooling, and Du et al. (2012) analysed the ratio of the number of students enrolled in higher education institutions to the total population. Mateev's research obtained the most significant results, suggesting a positive influence of education on FDI inflows.

The last aspect that can be analysed is the unemployment rate. Jiménez et al. (2011) used data provided by the World Bank in their analysis and obtained a negative influence of the unemployment rate on the level of foreign direct investment, this is due to the association of high unemployment rates with socioeconomic problems such as high crime rates.

Popovici et al. (2021) also note that a skilled and educated labour force is another necessary requirement for attracting foreign direct investment, particularly to harness technological capabilities, further absorb technology, and address the growth of innovation. Labour market quality is a key factor influencing a country's development. Their findings emphasise that the human factor is one of the most important determinants of FDI inflows in developing countries, and its importance has increased over time. Human capital variables are frequently included in studies and are expected to have a positive relationship with FDI.

The last category of noneconomic factors to be analysed are cultural factors. As foreign direct investment is about the interaction between different countries and therefore different cultures, this is another factor to be analysed. The distance between cultures can directly influence the expenditure of money and time to start and develop a business abroad and can play a decisive role in the success of the investment. This category of factors is frequently mentioned in the literature, but there is not much research that explicitly emphasises the influence of cultural variables on FDI flows, as the variables do not seem to cover the full impact of culture (Tocar, 2018).

Some researchers have tried to highlight cultural influence by using a generalising factor - cultural distance. It is worth noting that all authors use, in one way or another, the cultural dimensions proposed by Geert Hofstede. However, the only significant result was obtained by Lee et al. (2008): the interaction between Cultural Distance and Direction of Investment was negative, and there is no evidence of the influence of cultural distance on actual FDI inflows.

One of the most commonly used cultural factors in the literature is language. Most authors use dummy variables to emphasise the language factor, although each draws attention to a different aspect and obtains results of different relevance. For example, Sharma and Bandara (2010) analyse whether the language spoken in the host country is English or not, and the results show a positive relationship between FDI inflows and the language spoken. Even so, this may only be relevant for English-speaking countries.

Also, Siegel et al. (2013), in their re-reported research, concluded that the common language of two countries has a positive impact on the level of FDI. This approach has a limitation, however, as it does not consider whether two countries speak different languages but are close to each other, belonging to the same branch or family of languages, while the number of countries with common languages is limited.

2.2 FDI restrictiveness index

We further analyse the impact that restrictions imposed in different countries have on the level of foreign direct investment through the lens of the restrictiveness of FDI. The FDI restrictiveness is an OECD index that measures the restrictiveness of a country's FDI rules by looking at four main types of restrictions: restrictions on foreign capital, restrictions on discriminatory selection or approval mechanisms, restrictions on key foreign personnel, and operational restrictions (OECD, 2024). The values of this index at the end of 2020 are presented in Figure 1. Each country has an index with a value between 0 and 1 where: a value of 0 represents complete openness to FDI and 1 represents an economy with a maximum number of restrictions on FDI.

Usually, the countries that have very few restrictions on FDI such as Luxembourg, Portugal, Slovakia, Czech Republic, the Czech Republic, the Netherlands, and Romania also attract more foreign direct investment and have the highest levels of FDI.

Mistura and Roulet (2019) note that trade barriers to FDI and other operational restrictions are the biggest obstacles to foreign direct investment by influencing investors' choice between different locations. Barriers may limit market access or increase transaction costs relative to competing locations for both foreign firms in particularly restrictive sectors and foreign firms operating in FDI-related support sectors.

FDI restrictions are most often related to limitations on foreign capital or measures to filter foreign investment projects, as well as economic needs tests for hiring foreign key personnel and other measures that affect the profitability or structure of the business, such as restrictions on foreign land acquisition, limits on repatriation of profit and capital, and restrictions on branch establishment (Kalinova et al., 2010).

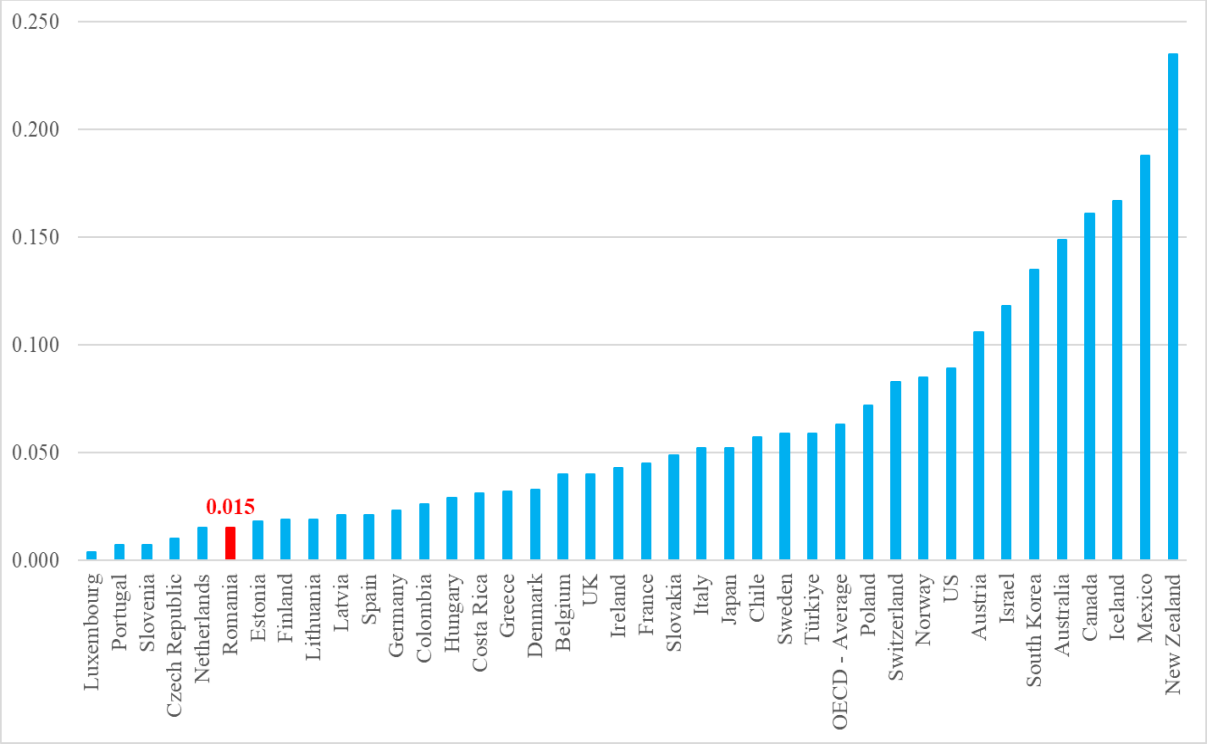

Figure 1. The OECD foreign direct investment restrictiveness index by country by the end of 2020

Source: Adapted from OECD, 2024

Most of the existing literature on the restrictiveness of FDI has focused on the implications of broader capital account restrictions on macroeconomic performance, in particular their effect on economic growth (Henry, 2007). The measures of capital account restrictions used in these studies are often based on a binary interpretation of existing regulations compiled in the IMF (International Monetary Fund) AREAER publication and mainly refer to a composite index of restrictions for different categories of capital account assets. Schindler (2009) is an exception, providing separate scores for the restrictions associated with different types of assets.

However, these measures still suffer from an "all-or-nothing" approach resulting from the binary nature of these indices, which does not necessarily reflect the degree of restrictiveness of these measures and also does not correspond to the way in which FDI liberalisation takes place. In many cases, countries adopt a sectoral approach to FDI reforms, maintaining a different level of restrictiveness across sectors (Mistura & Roulet, 2019).

The OECD FDI Restrictiveness Index attempts to provide a more nuanced picture of the legal restrictions that affect FDI. However, it is not easy to understand the different types of restrictions and to quantify them for the purpose of cross-country analyses. Countries have applied a wide range of measures, which require some type of categorisation to group them for any analysis. In addition, countries report measures in different ways, and therefore any quantification of these measures requires some degree of interpretation.

Nicoletti et al. (2003) note in their paper that irrespective of the methodological approach used to account for restrictions, more restrictive countries are less likely to receive FDI. By lowering relative rates of return on investment, restrictions are a natural candidate to explain FDI dispersion across countries. Foreign investors often compare investment location alternatives abroad, although there are cases in which the decision is restricted as to whether

or not to invest in a particular foreign market. This helps to explain why favourable policy changes towards FDI in one country are found to be positively correlated with FDI policy changes in other countries (Cooray & Vadlamannati, 2012).

Nordas and Kox (2009) argue that the relative openness of investment regimes matters for attracting investment, especially for countries relatively more distant from investors. Restrictions on foreign direct investment amplify the distance disadvantage, further increasing costs for more distant investors. Furthermore, the effect of FDI restrictions is likely to extend beyond the scope of the targeted sector.

The remaining restrictions on FDI are mainly concentrated in the services sector, but play an important role for competitiveness in both services and manufacturing. Therefore, improving the performance of services is becoming increasingly important for developing an internationally competitive economy (Arnold et al., 2012). Limited competition in the services sector, including through restrictions on foreign participation, negatively affects the productivity of manufacturing firms and, in particular, the level of product differentiation in the industry. Less competitive service sectors are also likely to reduce investment opportunities by potentially increasing the costs of sourcing quality service inputs for such investments (Nordas & Kim, 2013).

Trade barriers in services therefore reduce both competition in local markets and incentives for local firms to innovate and compete internationally. In addition, as trade barriers in services largely occur behind the border, they are also likely to impose costs on local firms, leading to less than desirable return on investment. Restrictions on foreign direct investment are one of many obstacles to the development of more efficient service sectors and globally competitive economies. Reducing global trade barriers in services is likely to improve the competitiveness of local firms in international markets and the overall competitiveness of the country (OECD, 2014).

2.3 Emerging trends and issues among FDI determinants

According to the United Nations Conference on Trade and Development, global foreign direct investment essentially stabilised around 2010, well before the recent trade tensions and crises. While global gross domestic product and global trade continued to grow, foreign direct investment stagnated. This is different from previous decades, when FDI grew rapidly in parallel with other macroeconomic indicators. This can be seen more easily in Figure 2 where the trends in FDI, GDP and trade over the period 1990-2022 are shown (UNCTAD, 2024).

A closer look at the historical patterns of greenfield projects in manufacturing and services reveals strikingly different trajectories (Figure 3). The services sector experienced rapid growth between 2004-2011. This growth levelled off between 2012-2019, with the services sector showing resilience against the global crisis in the post-pandemic phase. In contrast, the manufacturing industry has stagnated continuously for the last two decades. In the three years following the outbreak of the COVID-19 pandemic, the manufacturing sector entered a phase of decline, registering an annual decline of more than 10%. The year 2023 partially rebalances this post-pandemic story, as the manufacturing sector has rebounded. It remains to be seen whether this rebound signals a structural recovery after the decline of the Covid-19 pandemic or just a temporary fluctuation.

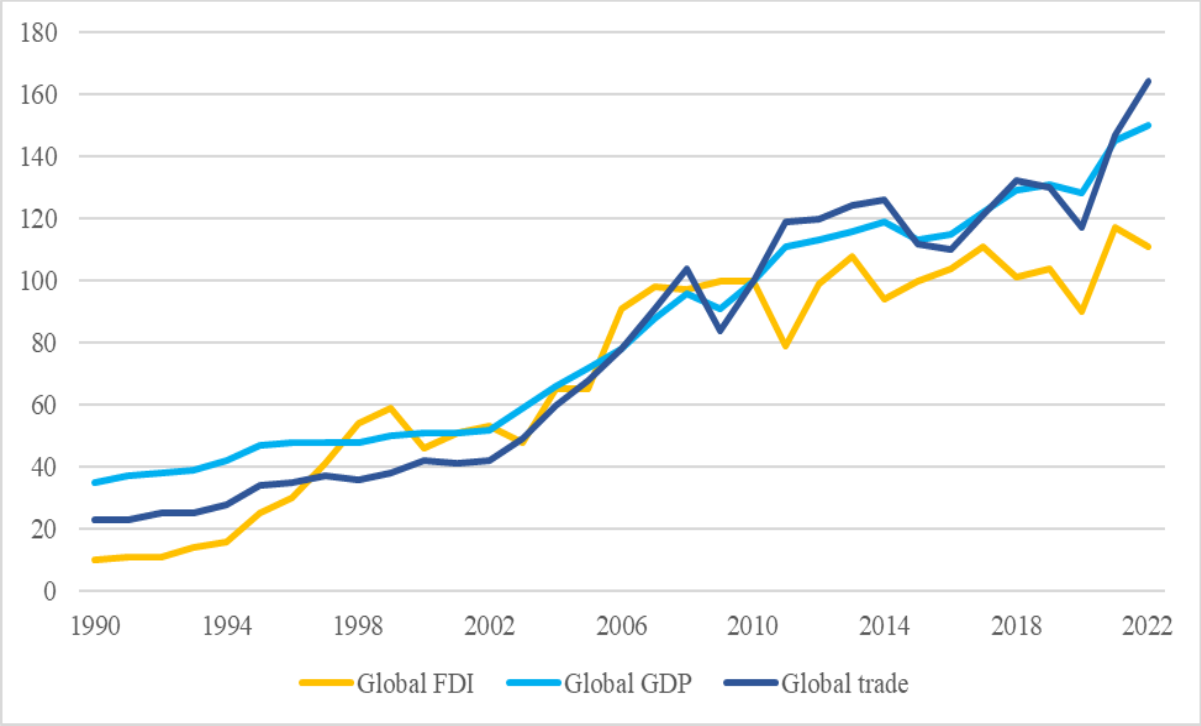

Figure 2. Foreign direct investments (FDI), gross domestic product (GDP) and trade trends, indexed 2010 = 100

Source: UNCTAD, based on Eora26 and Asian Development Bank (ADB) input-output tables, 2024

According to UNCTAD (2020), technological trends that are reshaping international manufacturing include robot-assisted automation, increased digitalisation of the supply chain, and additive manufacturing. Robotics reduces labour as a share of total costs, increases economies of scale, and can lead to the re-engineering and relocation of fragmented processes. Digitalisation of the supply chain reduces governance and transaction costs, improves coordination, and can increase smaller companies' access to the global market through platforms. Additive manufacturing leads to greater geographic distribution of activities, closer proximity to markets, and a concentration of value in the design phases.

However, the adoption rates of these technologies are affected by trade and investment policies, which tend towards higher levels of interventionism and protectionism, together with a shift from multilateral to regional and bilateral policy frameworks. Particularly after the outbreak of the COVID-19 pandemic and increased geopolitical and trade tensions, major public interventions in developed economies, such as the Inflation Reduction Act in the United States and the Recovery and Resilience Plan in the European Union, are contributing to reshaping the public policy landscape for foreign direct investment.

Sustainability concerns, including differences in approaches across countries and regions on emissions targets and environmental, social and governance (ESG) standards, market-driven changes in products and processes, and supply chain resilience measures, are also driving further changes in international production networks. For example, border carbon adjustment mechanisms are likely to affect trade flows and the location decisions of export-oriented investments (UNCTAD, 2024).

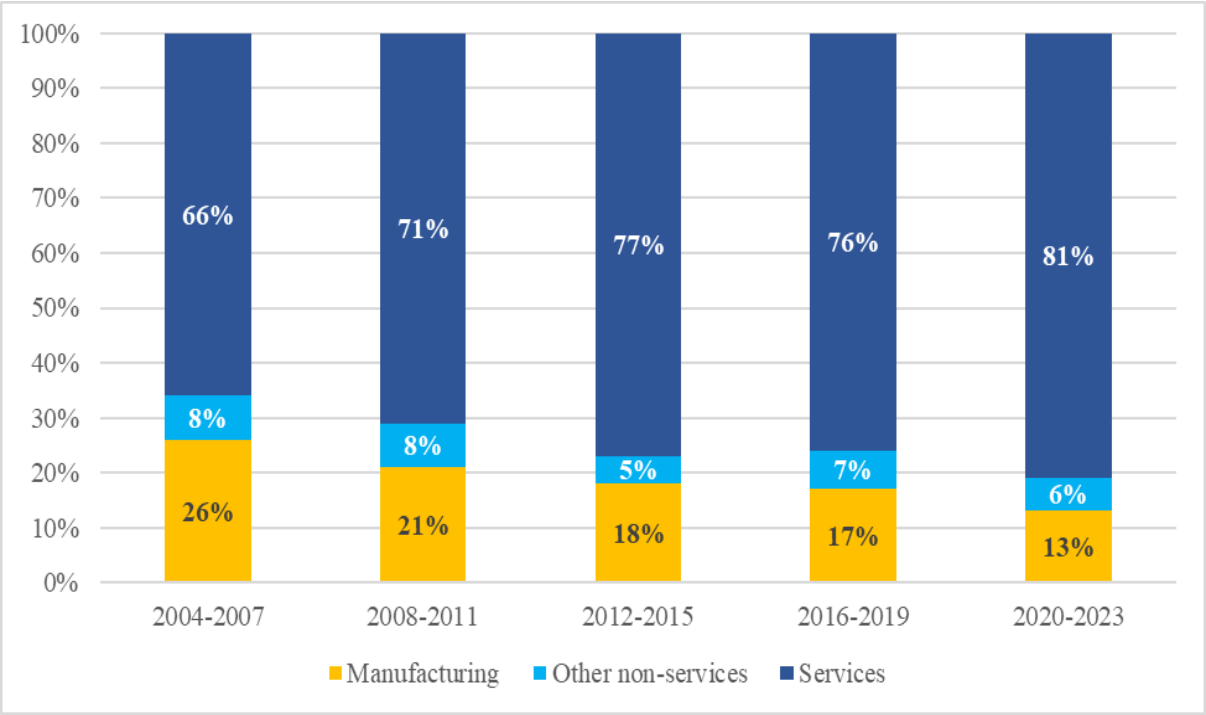

Figure 3. Percentage of cross-border greenfield projects per sector between 2004-2023
Source: UNCTAD, based on information provided by the Financial Times Ltd, fDi Markets, 2024

A final aspect to be mentioned with regard to trends in the ever-changing importance of determinants and constraints on foreign direct investment is the geopolitical climate and the escalation of global conflicts. By tracking FDI across countries in terms of their geopolitical alignment, we can clearly see the effect of geopolitics on FDI patterns. The first signs of cracks in investment patterns emerged as early as a decade ago, with FDI flows between geopolitically distant countries initially declining moderately.

Over the past five years, however, this decline has accelerated, particularly in 2019 amid escalating trade tensions, and further in 2022, clearly emphasising the geopolitical nature of the trend. Overall, between 2013 and 2022, the share of FDI projects between geopolitically distant countries fell by 10 percentage points, from 23 to 13 per cent (Figure 4).

Significant annual fluctuations in global FDI patterns could mean that some countries could benefit significantly from FDI reallocation each year. However, these fluctuations also imply that patterns of winners and losers are unlikely to remain constant over time. While isolated crises may present opportunities for diversification, the presence of long-term uncertainty will generally have negative effects. An examination of relative gains and losses in beneficiary regions over the past four years corroborates this view (UNCTAD, 2024).

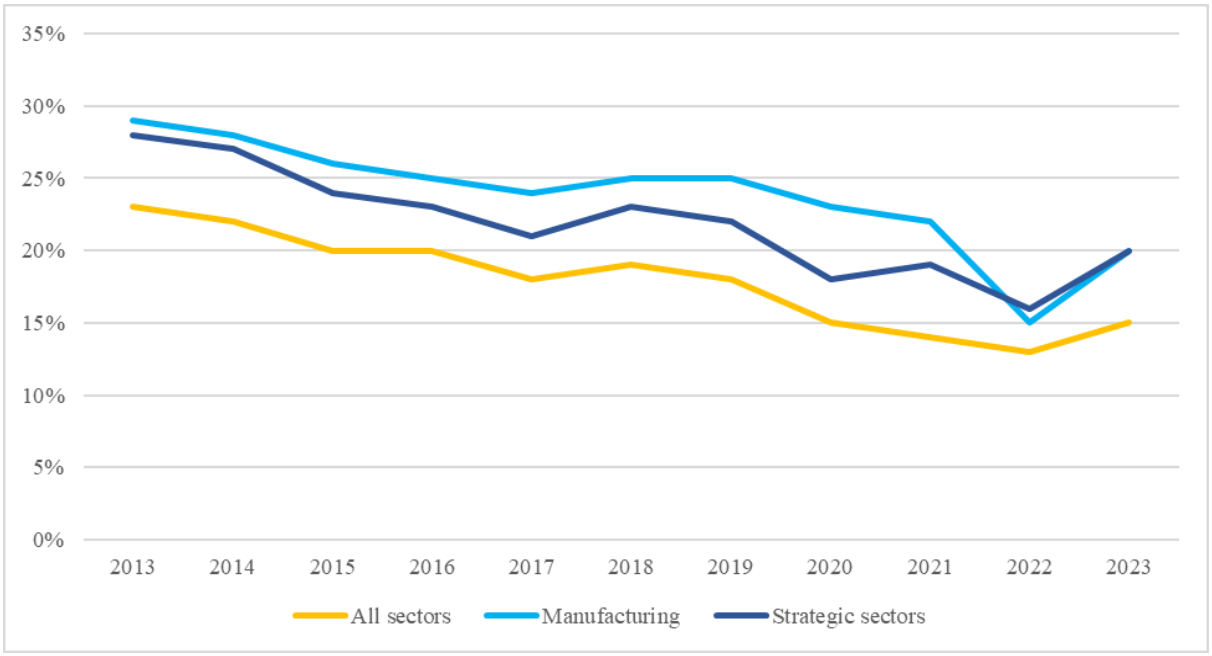

Figure 4. Percentage of global cross-border greenfield projects between countries that are "geopolitically distant" 2013-2023

Source: UNCTAD, based on information provided by the Financial Times Ltd, fDi Markets, 2024

3. DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN ROMANIA

To determine which of the FDI determinants that we have previously covered affect the flows of foreign direct investment in Romania, we use the EY Attractiveness Survey Romania 2023 conducted by EY Romania on a sample of 103 respondents.

As can be seen in Figure 5, from the perspective of foreign investors, the most important factors influencing their verdict when choosing to invest in Romania are the reliability and coverage of the infrastructure, the safety measures taken to prevent major crises, the level of technology adoption, and the cost competitiveness of the country. But factors such as quality of life and the stability of the political and legislative regime should not be ignored either, as they also matter in the final investment decision.

The most important strategic assets held by Romania with a significant effect on foreign investors (Figure 6) are its EU and NATO membership status, its geographical position in terms of its openness to the Black Sea, and its cost competitiveness. Investors attach less importance to labour availability and renewable resource capacity.

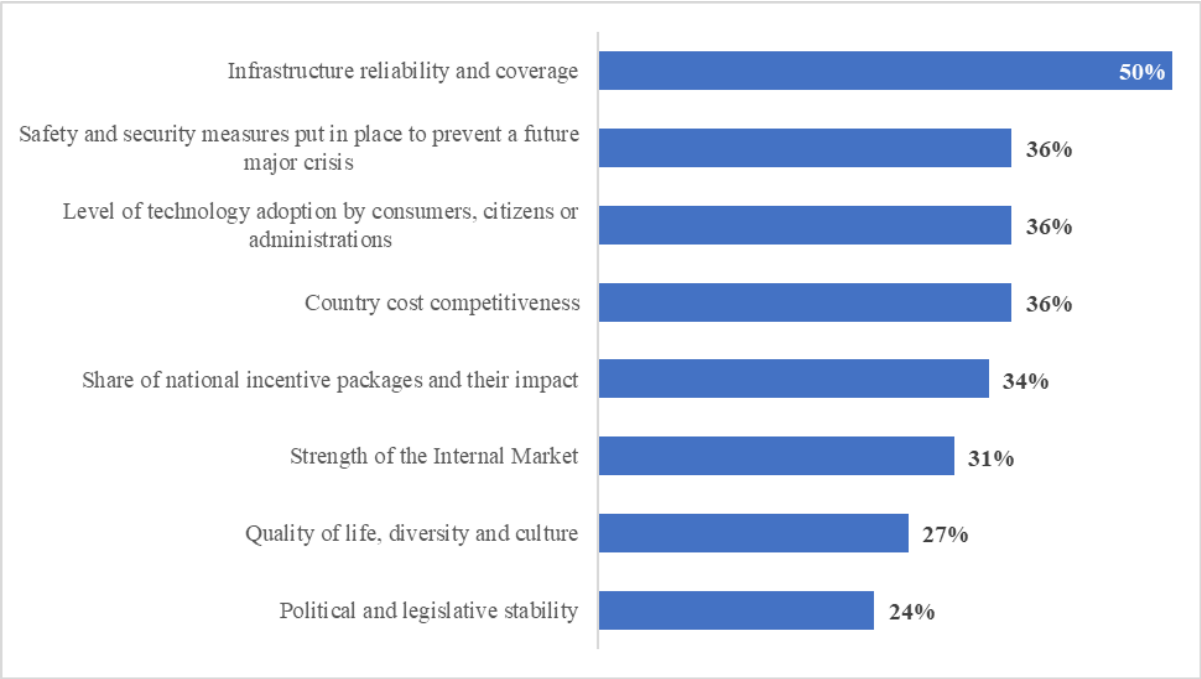

Figure 5. Main factors influencing investors' decision to choose Romania as a destination for FDI

Source: Adapted from EY Romania (2023)

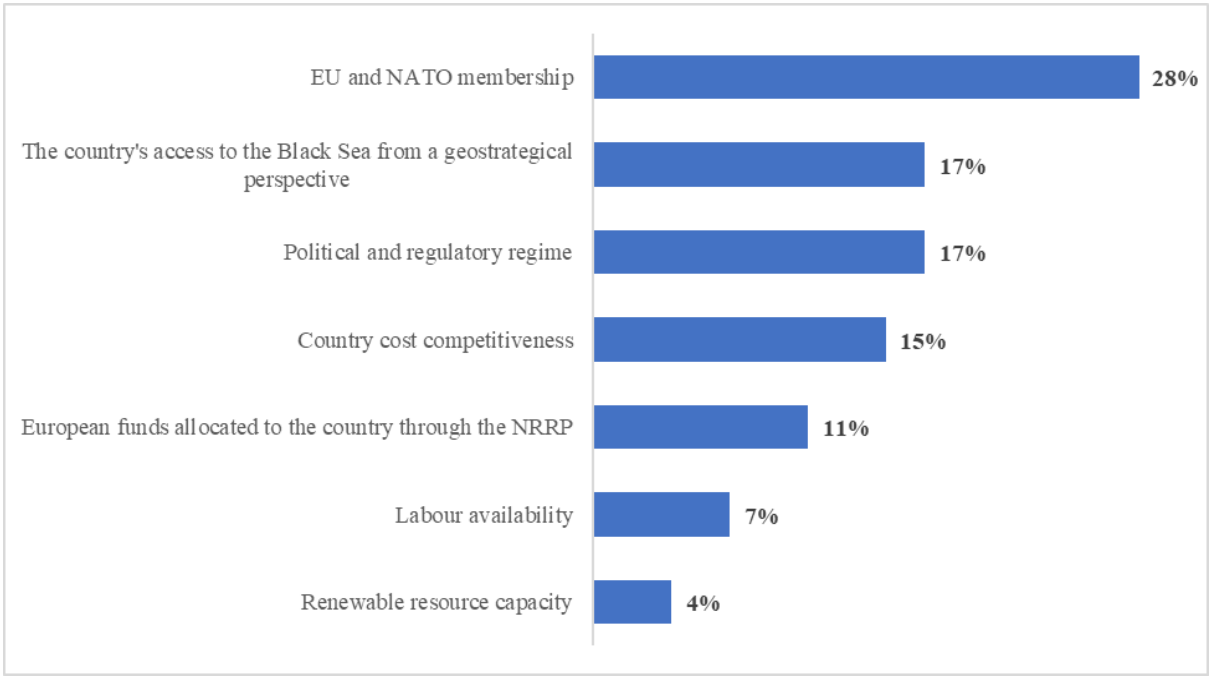

Figure 6. Romania's most important strategic assets as a destination for FDI

Source: Adapted from EY Romania (2023)

The main risks considered by foreign investors in their decision-making process regarding foreign direct investment in Romania (Figure 7) are those related to the tightening financial conditions for companies, the level of public debt and the impact on taxes, and those related to slowed supply chains and supply difficulties. The cause of the latter risk can be linked to another risk considered by investors, namely the conflict in Ukraine.

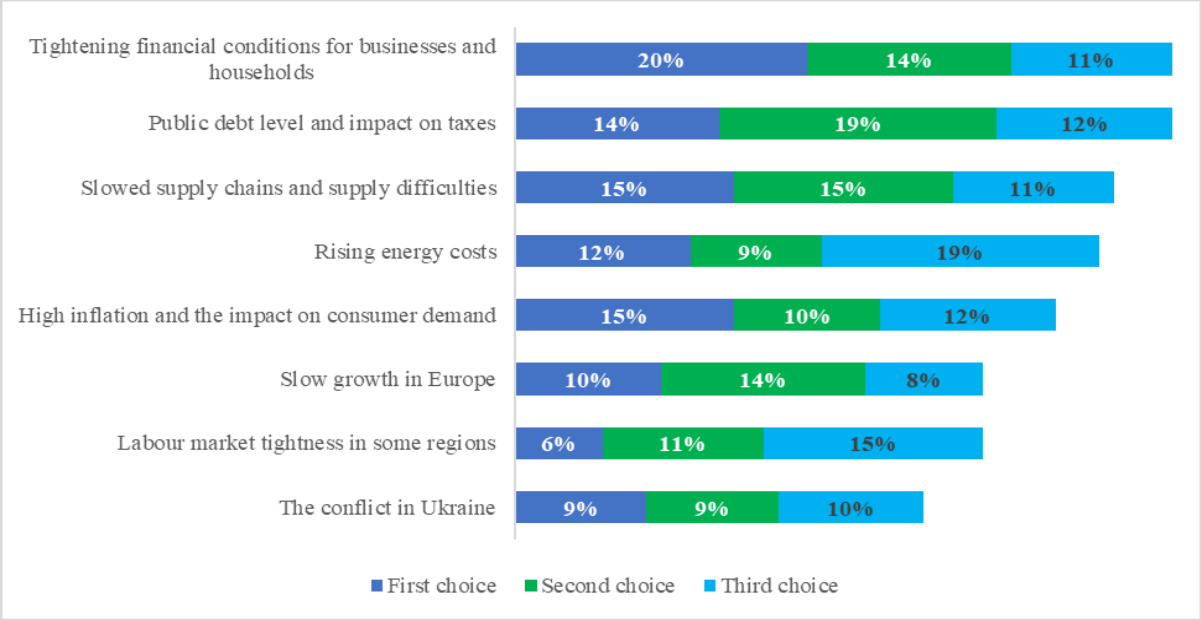

Figure 7. Top three economic risks impacting investment plans in Romania
Source: Adapted from EY Romania (2023)

In terms of Romania's performance compared to the European average, we analyse two aspects of particular importance: sustainability and technology. In terms of sustainability (Figure 8) the situation in Romania is positive. It performs better than the European average in terms of renewable energy sources, while in all other aspects it performs at least as well as the European average. The only issue to be considered is the ecosystem of innovative green technologies, as a quarter of the investors surveyed consider this to be a weak point compared to the European average.

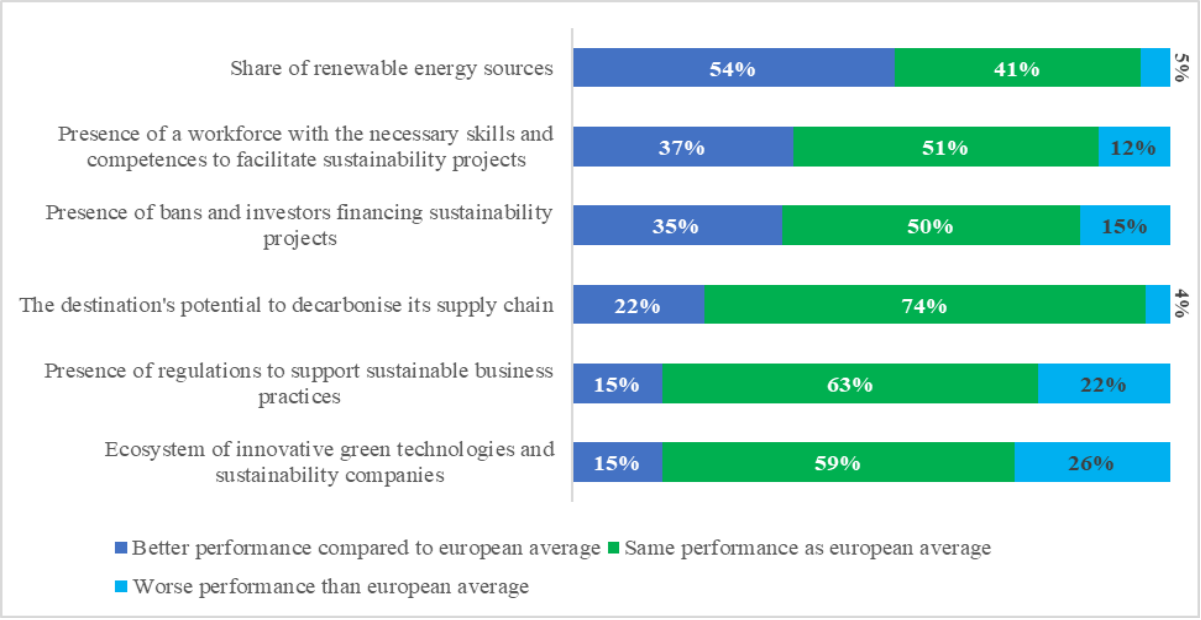

Figure 8. Romania's sustainability performance
Source: Adapted from EY Romania (2023)

From the technological perspective (Figure 9), however, investor opinion is not as positive. While for the most part Romania performs at least on par with the rest of Europe, issues such as the availability of technologically-skilled labour and the tax approach relative to global tech

companies are weak points that need to be improved. Nor should the rate of innovation, the strict regulatory approach to data protection, and the availability of venture capital be ignored, as these are also issues that at least a quarter of investors consider to be below the European average. For Romania to be able to recover in terms of FDI, it is imperative to support SMEs and innovation and high-tech industries at national level, to encourage policies and attitudes to protect the environment (Figure 10). Since the IT industry is also the most attractive nationally in terms of FDI (Figure 11), it suggests that it needs to receive more attention, especially when it comes to the technology-related issues identified above.

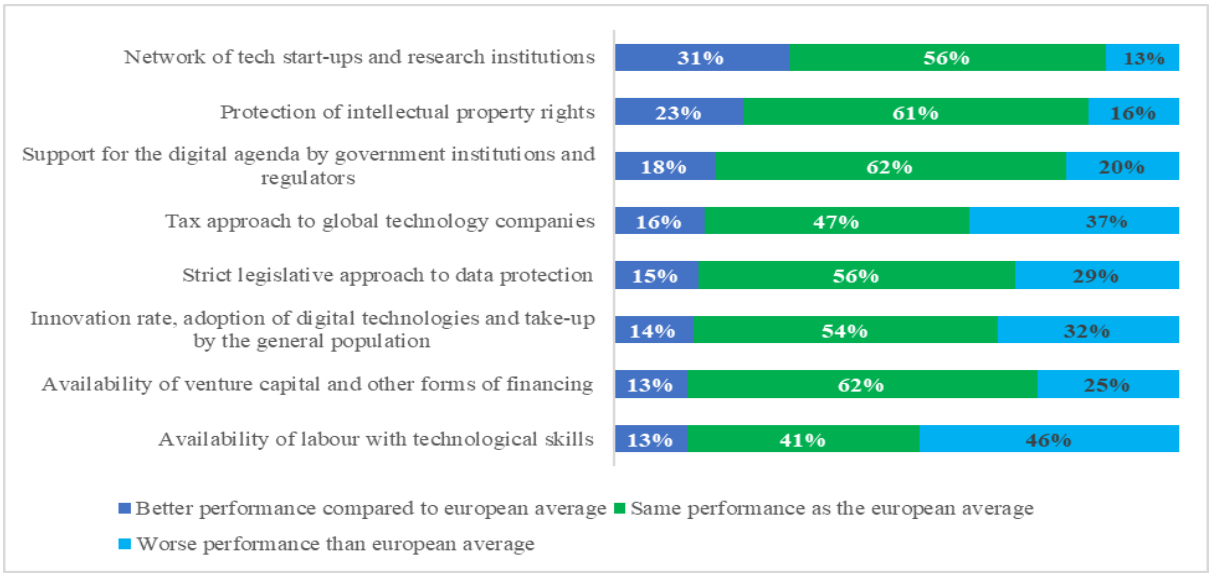

Figure 9. Romania's technology performance

Source: Adapted from EY Romania (2023)

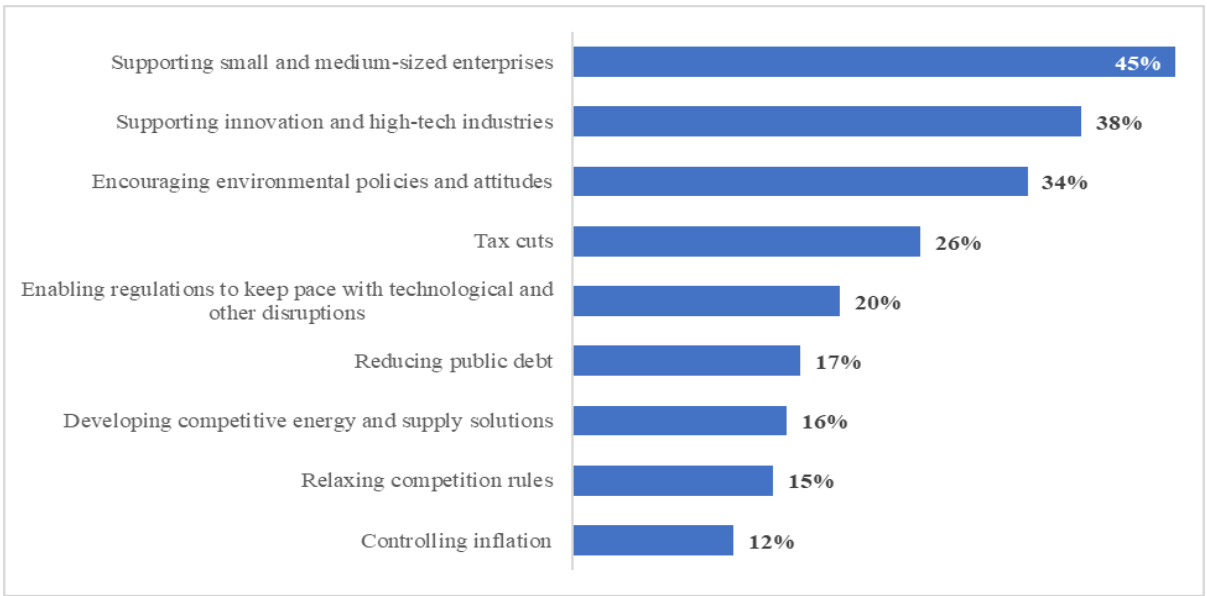

Figure 10. Key strategic areas where Romania needs to focus its efforts to maintain its competitive position in the global economy

Source: Adapted from EY Romania (2023)

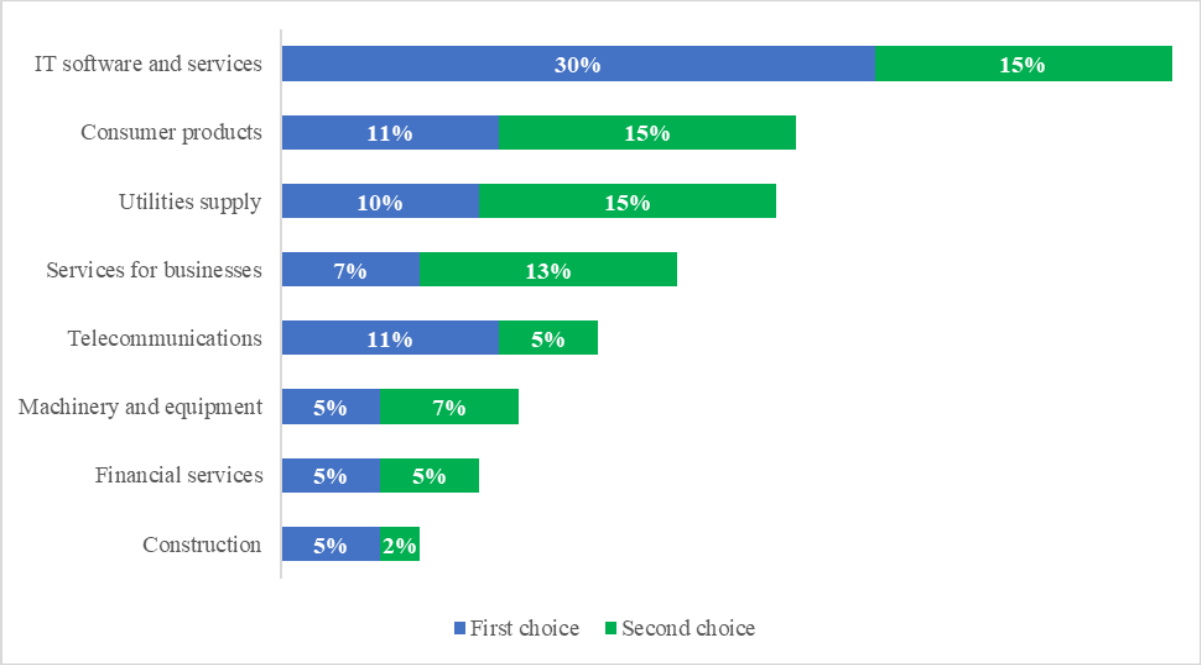

Figure 11. Main sectors of activity that will sustain Romania's economic growth in the future

Source: Adapted from EY Romania (2023)

While key areas such as competition rules and inflation and sectors such as construction and financial are not of high importance to the investors at this time, they cannot and should not be neglected, as they aid in the growth of the other key areas and sectors and in turn facilitate the growth of the national economy.

4. CONCLUSIONS

This paper confirms the fact that many of the determinants of foreign direct investment identified both recently and more than a decade ago still have a great deal of influence over the investors' decision-making process in regards to the host countries they choose to invest in, although the order of importance and attention of some of them may have shifted over time. It is obvious that all of the previously analysed economic factors still have an incredible amount of importance, followed closely by technological and sustainability-related factors.

We can also see that nowadays, at least in Romania's case, some of the more important aspects that the investors appreciate are its EU and NATO membership status which can be correlated to the on-going Ukraine conflict and its influence over geopolitics and, in our case, over FDI.

All the results of this paper must be analysed within the limitations of the research. As such, the main limitations of this paper are: the relatively small number of papers used in the literature review and the up-to-dateness of the data, or rather the lack thereof, since most of the papers analysed have been written before the pandemic.

Future research on this matter could be based on a causal analysis between the identified determinants that influence the flow of FDI in Romania and the evolution of the flow over a set period to check how the importance of the determinants has changed over time. This could be expanded even further into a forecast of the net flow of FDI that would take into

consideration both the previously identified determinants and old statistical data regarding the real evolution of the inflows of foreign direct investment.

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