

# DIRECT FOREIGN INVESTMENTS AND THEIR IMPACT ON ECONOMIC DEVELOPMENT

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*This is a topic of great interest for society nowadays.*

*When there is infrastructure in a country, it becomes an economic good in the following years that can be achieved only through direct foreign investments.*

*Direct foreign investments are carried out by companies aiming at getting total or partial control over production, marketing and other activities within another national economy.*

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In the post-war period, there was a vast expansion of international trade that accompanied economic growth and the reduction of barriers against imports. Thus, in the 1950s and 1960s, international competition was measured through the level of imports in national economies and the market quota of a state on the international level. Then, at the end of the 1960s and all through the 1970s, direct foreign investments grew remarkably.

Direct foreign investments are carried out by companies pursuing total or partial control over production, marketing and other activities within another national economy. Investments may be materialized in services, in manufacturing industry, or in supplies production

Direct foreign investments may entail either the acquisition of certain already existing economic activities (mergers or acquisitions), or the creation of new facilities (investments, such as Greenfield).

The expansion beyond the borders of the country of origin is accompanied in most of the cases by international alliances with companies of other nationality.

Direct foreign investments are used as part of a global strategy of the corporation to establish a permanent position in another economy. Once the beginning of the 1990s, most countries liberalized their regulations concerning foreign investments and actively encouraged foreign investments towards the interior.

In the span covering 1991-1996, 95% of the 599 worldwide alterations to national regulations referring to direct foreign investments envisaged a progressive liberalisation. This trend was particularly important for investments in services, especially in financial services, where foreign companies had faced several national restrictions before.

We may notice the impact of direct foreign investments on Romania through the massive growth of direct foreign investments of certain companies of different nationalities, crossed investments amongst national economies, and the growing integration of commerce. Direct foreign investments led to the disappearance of hostile attitudes. If there is a legal and political incentive, the development of direct foreign investments, the development on local, regional, and national levels have a beneficial finality.

Lately, the trend of foreign investments in Transylvania and Banat has altered. Foreign businesspeople prefer the so-called Greenfield investment, which means the growth of factories from zero. So far, they used to invest more in purchasing and modernising plants built during the communist regime.

This trend alteration was also encouraged by Law 332 of 2001 that supported important investors by granting certain fiscal facilities.

One of the important companies that has entered on the market in Transylvania is the Austrian company "Holtzindustrie Schweighofer" that has invested since 2002 over 54 million Euros in the sector of wood processing in Sebes, Alba County, and has created 320 new jobs. The unit thus values the wood in the area of the Apuseni Mountains. SNR "Roulments" from France has declared investments in the field of car

industry of 60 million Euros and an estimate of 1,000 jobs in Sibiu. The factory might become one of the most important providers for the Renault factories in Romania and Russia.

According to the ARIS statistics, there is a series of investors that are undergoing a process of achieving the announced investments; they are to be gradually finished by the end of 2008.

One of them is the “Selgros” group that has investments in the main cities of the country to open 13 new units, as well as the German group “Tengelman” – which is specialised in retail – that announced the opening of 15 new units and a warehouse.

Another investment in progress is the German company “Ina Schaeffler” in the field of fine mechanics that develops a factory in Brasov of 35 million Euros with 220 employees.

“Celestica” from Canada may be framed here, as they invest 84 million Euros in Bors, Bihor County, in the field of electronics. They will create no less than 1,000 jobs in 2008.

According to Law 332/2001, direct investments with significant impact in economy have a value exceeding the equivalent of 1 million USD and contribute to developing and modernising the economic infrastructure of Romania. They have a positive impact on stimulating economy and creating new jobs.

These investments may be carried out in any walk of life, except for the financial, banking, and insurance sectors, as well as those with special regulations.

Besides, local authorities may provide tax exempt for the land for these investments for a period of up to 3 years starting the beginning of works.

At the same time, according to the Fiscal code, direct investments with significant impact in economics benefits from overwriting from a fiscal point of view in the month the investment is carried out of a 20% quota of the total value, as well as the possibility to use accelerated depreciation of the investments carried out, without needing to get previous approval from the territorial fiscal body in charge.

The growing role of transnational companies (TNC) within global economy has become an extremely controversial topic. The supporters of transnational corporations consider them as beneficial for industrialised economies, as well as for those on their way to industrialisation, as they consider they contribute to efficient and productive use of world resources, which increases world assets and economic welfare. Internal economies are still a core feature of global economy and, at the same time, multinational companies and their investment activities have an incontestable impact on the location of the economic activities worldwide and the national growth rate and productivity.

Transnational corporations are the main capital, technology and market access source for almost each and every country.

Due to the benefits of direct foreign investments, transnational corporations have a considerable economic and political power, while their activities are legitimate objectives of concern for any society. Direct foreign investments have important distributive effects within internal economies, particularly upon the distribution of income between capital and labour force.

According to the law concerning foreign investments in Romania, natural and legal entities may invest under a great variety of legal forms, such as: direct investments in economy, investments in state bonds, and so on.

The authority competent in the field of foreign investments is the Romanian Agency for Foreign Investments (ARIS). The conception of the strategy to promote foreign investments by ARIS is based on a programme for 2005 – 2008 that assumes the following points:

- establishing a strategy to promote foreign investments in tight relation with the private sector and the local/regional and central authorities;
- promoting a new foreign investments incentive law;
- placing ARIS as a central contact point for potential foreign investors, or already existing investors, in Romania.

The agency is in charge with the project on “Romania, attractive destination for foreign investments” that suggests the revival of the Romanian business environment, so that the existing reserves of the investors may disappear. The introduction of the single tax of 16% for natural entities’ income and the profit of private companies is meant to strengthen fiscal order, to reduce bureaucracy and to build a friendly business environment.

The effective involvement of the foreign investors' representatives in the decision-making process on a governmental level may contribute to eliminating obstacles and improving the investing climate.

An efficient policy needs not only intelligence, it also needs money. Important privatisation finished in 2005-2006 and in 2007-2008 proactive investment policies are needed, where attracting investments of a Greenfield type is crucial.

The ARIS activities, tightly related with the external promotion of the Romanian investing climate will be reorganised by adopting a system focused on target countries. Re-identification of destinations is based on the latest global evolution of the foreign capital exit flows and the trends of localisation towards the emerging markets, according to the flying geese Japanese model.

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