

THE DIMENSION OF THE DETERMINATION OF THE RISK OF THE DIRECT FOREIGN INVESTMENTS IN ROMANIA

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It was marked out that the investors should be prepared for permanent changes of the forms in which the risk can manifest itself from the evolution of market economy grounded in the industrialized countries: operational, financial, strategic risks are also added to the traditional exposition to chance, caused by a series of factors, as legislation modifications, certain standards and European codes, the risks imposed by the evolution of the new economy, pressures that emerge in the personnel policy domain, the new needs for technical equipment, the costs efficiency, the spontaneous (unexpected, unplanned) economical events.

It is interesting to analyze in what measure one can talk about the risk management in the strategies to attract the foreign investors in this context. This supposes an additional effort of the authorities to identify and subsequently eradicate the risk that could emerge in the case of some direct foreign investments in Romania.

Keywords: direct foreign investments, risk, risk management, uncertainty

J.E.L. classification: E20, E22, G32, D81

Introduction

The reality proved us repeatedly that any human activity is deployed in conditions of risks, these risks being more or less serious, more or less known, easier or more difficult to avoid. The deficient knowledge of risks, their wrong evaluation, the lack of an adequate protection against them will affect the result of the activity directly.

The risk, that is one of the key elements of the evolution of economy, represents a concept that wasn't debated enough in the specialty theory, the people being still unable to master its identification and the avoidance techniques during their deployment.

The risk is regarded as a phenomenon that come from circumstances for which the decision maker is in measure to identify possible evolutions/events, and even the probability of their production (materialization), without being able though to specify which of these events will effectively occur. So, one can say that the risk derives from the impossibility to ascertain with a certain accuracy which is the possible event, identified as such by the decision maker that will effectively materialize and will determine a certain risk level. The decision maker cannot be sure if that event is the one that will occur certainly and not another even if the estimated probability for the effective materialization of a certain factor that generates risk is high; it is possible that a phenomenon whose probability was assessed at a reduced level or even an unexpected event be produced.

It has been assessed that "the risk is constituted by the possibility that a fact with unwanted consequences can be produced" in the definition given by the Organization for Economic Co-operation and Development in 1983 ; this definition has the eventuality that an (anticipated with a certain probability or a not predicted by the decision maker) event materialize and negatively affect certain aspects of the economic activity (the investment process) at its basis. In fact, the accent falls on the effects that the respective event trigger in this concept.

There is a great number of definitions of risk through which the finding of new valences and significances of it on the investment activity are tried: "the risk represents the variability of the possible result depending on an uncertain event"; "the risk is the uncertainty with regard to a loss"; "the risk can be defined as the possibility that losses be bigger than expected"; "the risk

represent the uncertainty with regard to the production of a damage” or “the risk is that situation in which there is the possibility of a deviation withstander to the hoped result”.

One can notice certain common characteristics, certain criteria to define the risk by analyzing all these definitions. Firstly, one can say that the risk derives from uncertainty: the adoption of the decision takes place presently and its implementation and the generated results will produce in the future. The uncertainty comes from not knowing regarding which event of the identified ones will happen and when, which will be the real effects and the amplitude of its production. Secondly, the risk implies the idea of potential loss (of any type), generated by an evolution of the risk factor contrary to the decision-maker’s expectations.

The risk – essential factor in the investment decision

The risk is a multi-dimensional concept whose level cannot be reduced to a single element, to a cipher. It is important for any firm that an acceptable level of the investment risks that it is willing to take be determined. The acceptable risk level refers to the “maximum” risk that the investor is willing to take: it is necessary that the obtaining of a minimum capitalization to justify the operation costs be certain. There isn’t a unique acceptable level, but it differs from the concrete conditions of each economic activity / investment and the decision maker’s attitude regarding risk.

The uncertainty has two components: an objective component – the objective uncertainty (identified with the risk concept not few times) – and a subjective component – the subjective uncertainty. The distinction between these two concepts is important in the case of direct foreign investments (and of international affairs generally). The subjective character of the uncertainty has to be assessed in the sense that the estimates regarding the production of a certain event that generates risk is based on the decision maker’s own appreciations and perceptions depending on the pieces of information he has at the respective moment, and the experience he has in the respective domain. The objective uncertainty can be assimilated to the situation in which all possible results are known and most of those implied in the decision process are unanimous in the estimation of the same production possibility of each of the identified effects on the basis of data delivered by previous evolutions.

The managers’ evaluations regarding the future deployment conditions of a business have a predominantly subjective character. An improvement of the quantity and quality of the pieces of information has to be imposed for a foundation of the decision of investments and the reduction of the number of “unfamiliar” with which one operates as good as possible, and a “a conversion of the unfamiliar into risk” has to be realized.

The risk represents that probability factor that can be associated to a possible result when the decision factor knows all the possible future effects of the taken decision. The uncertainty emerges when the decision factor knows all the possible future effects but it cannot associate them, for various reasons, to no probability factor of the possible result. The uncertainty is “more drastic” than the risk and comes in most cases from the lack of information, the precarious quality of the information or as a result of certain dysfunctionalities of the decision maker’s information system.

In the Romanian economy, the risks to which economic agents expose themselves are the risk caused by inflation, the evolution of the exchange rate and the economic-financial blocking, that is the non-payment risk.

The risk management represents a complex process that comprises a series of activities meant to diminish the risk that could appear once with the entrepreneur’s initiative. The risk management implies the identification of risks, the analysis of risks (the ranking of their importance and their impact on the company), the treating of the risks, that is by the financed or non-financed retention of risks, by the risks transfer, by contract or through insurances and capital markets, by reducing risks and by changing the activity, if it is the case.

The diverse types of exposures specific both to the banking sector and to the commercial companies include all the financial risks – the currency risk, the price risk, the credit risk, the liquidity risk, the operational risk, the legal risk.

An explosive development of projects to control risks was registered in the developed countries in the last years. A great variety of tools was used or revised to respond to the demands of the controlling risks management. The main economic function of futures markets is hedging (the cover of risks). Hedging represents the buy and sale of futures contracts to compensate the risk of the emergence of some price changes on the spot market. This mechanism of risk transfer made the futures contracts indispensable to the companies and institutions from the entire world.

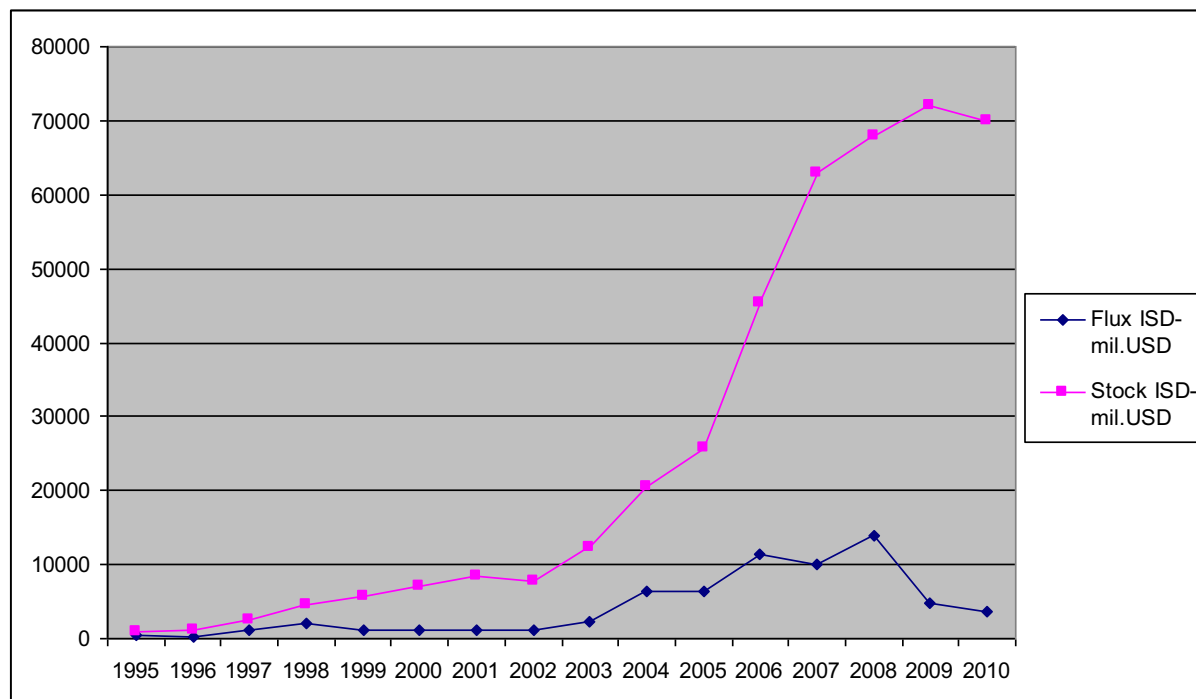
The risk management is an attribution not only of the entrepreneur but also of the state that whose intervention should be as righteous as possible, without creating unilateral precedent.

The attraction of direct foreign investments is an important source of efficient reorganization of the regions and implicitly of the national economy. Financial capital, efficient management methods, assurance of unfolded retail sales markets, capacity of placement on the European and global market are a few of the benefits of the entrance of foreign capital.

We have to know the foreign investors' criteria to estimate the risk to invest in Romania in order to create an attractive environment for them and these criteria will have to assure a correct use of the community funds meant for economic reorganization and to exploit the created, legal, institutional background efficiently to ensure a stable and attractive environment for the foreign investors.

2. The direct foreign investments in Romania

The net influx of direct foreign investments reached the level of 2,22 billion Euro, from which 1,824 billion Euro capital participations (82,2 %) and 396 million Euro net credit received from the foreign investors (17,8%), according to the statistical research conducted by the National Bank of Romania in collaboration with the National Statistics Institute.

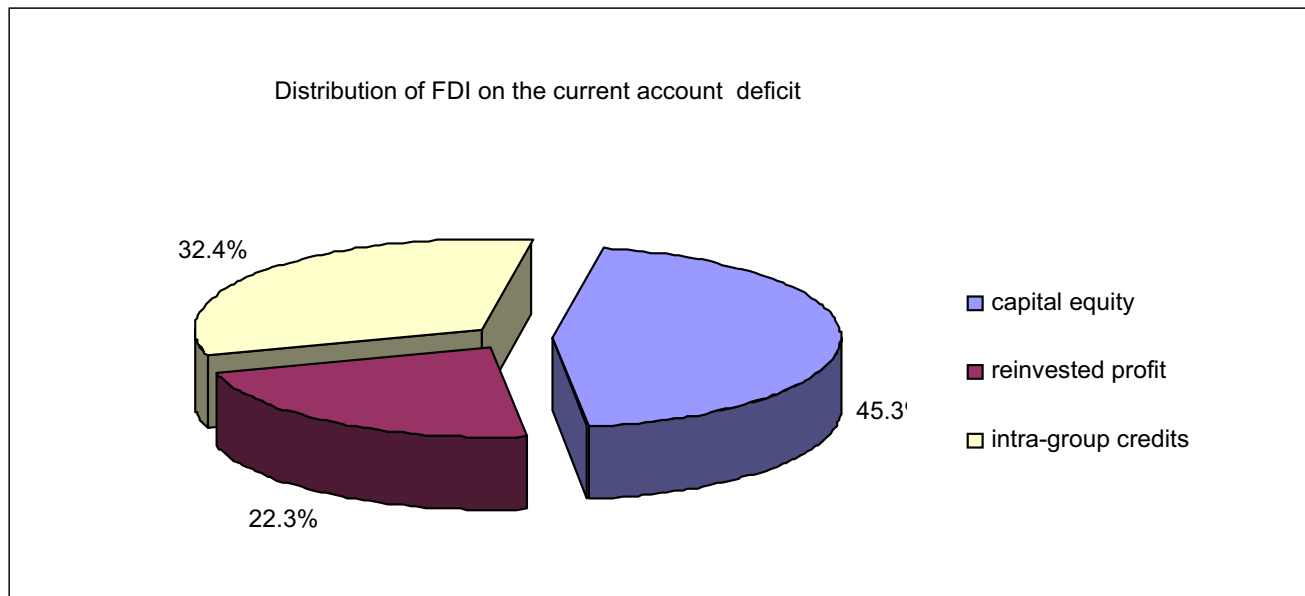


Source: Report of the National Bank of Romania

Figure 1. The evolution of direct foreign investments in Romania

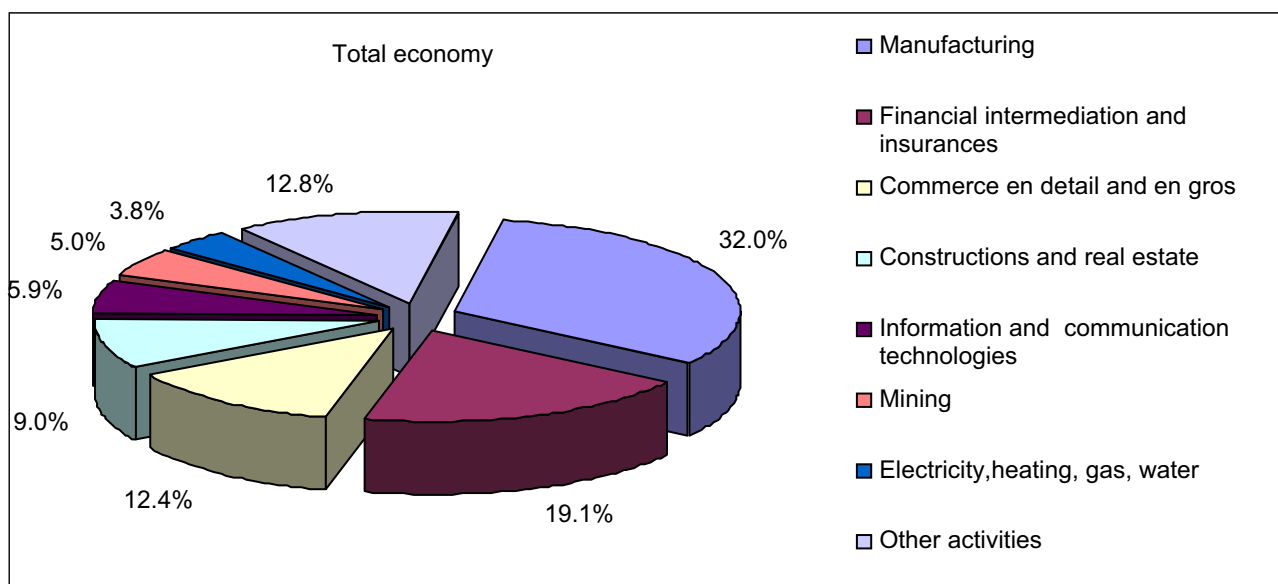
The final balance account of direct foreign investments on the 31st of December 2010 registered the value of 52,585 billion Euro, from which 35,529 billion Euro capital participations, including

reinvested profit (67,6%) and 17,056 billion Euro net credit received from the foreign investors (32,4%).



Source: Report of the National Bank of Romania

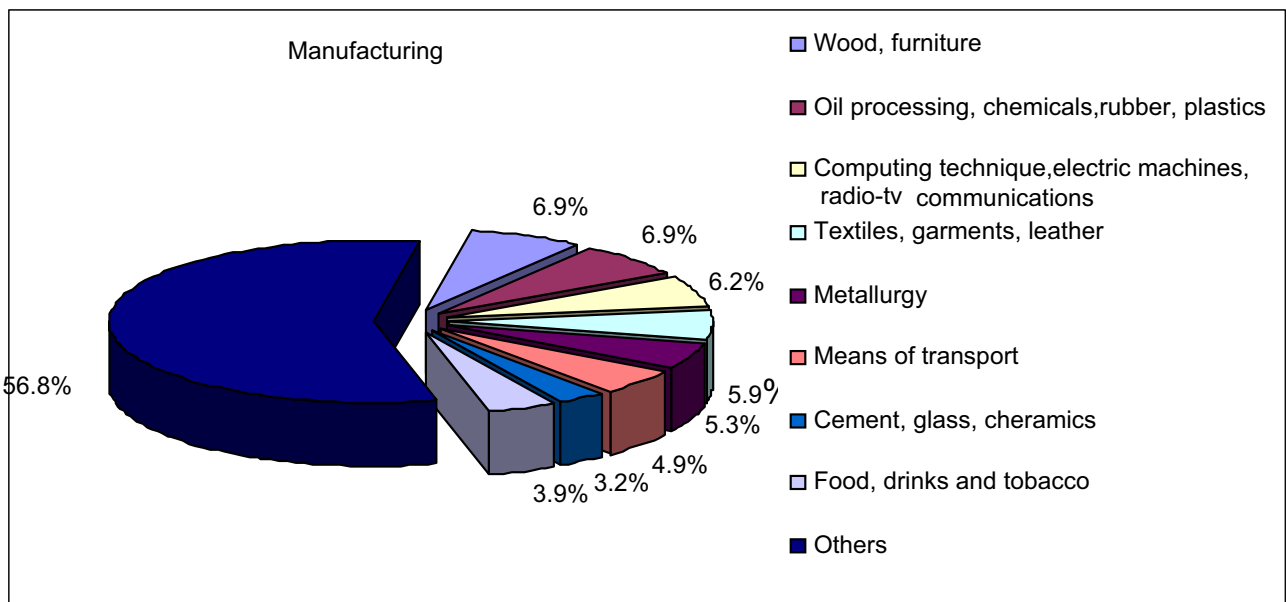
Figure 2. The structure of attracted foreign direct investments



Source: www.reportereconomic.ro

Figure 3. The distribution of the foreign direct investments balance of current account on the main economic activities

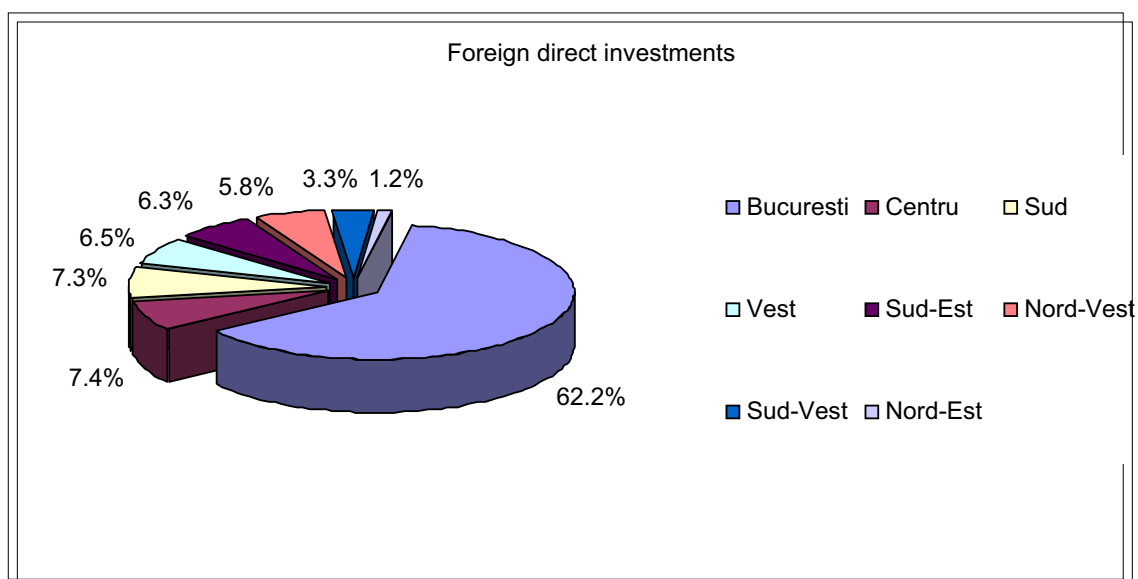
From the point of view of the foreign investors' orientation to economic branches (according to CAEN Rev.2), the direct foreign investments located mainly in the manufacturing industry (32% of the total amount). The best represented branches within this industry are: the oil processing, chemical products, rubber and plastic masses (6,9% of the total), metallurgy (5,3%), the means of transportation industry (4,9%), the aliment, beverages and tobacco industry (3,9%) and cement, glass, ceramics (3,2%).



Source: www.reportereconomic.ro

Figure 4. The share of direct foreign investments balance on current account on the main economic activities

Apart from industry, activities that attracted important direct foreign investments are financial intermediaries and the insurances (they represent 19,1% of the total direct foreign investments), retail and wholesale commerce (12,4%), constructions and real estate transactions (9%), information technology and communications (5,9%).

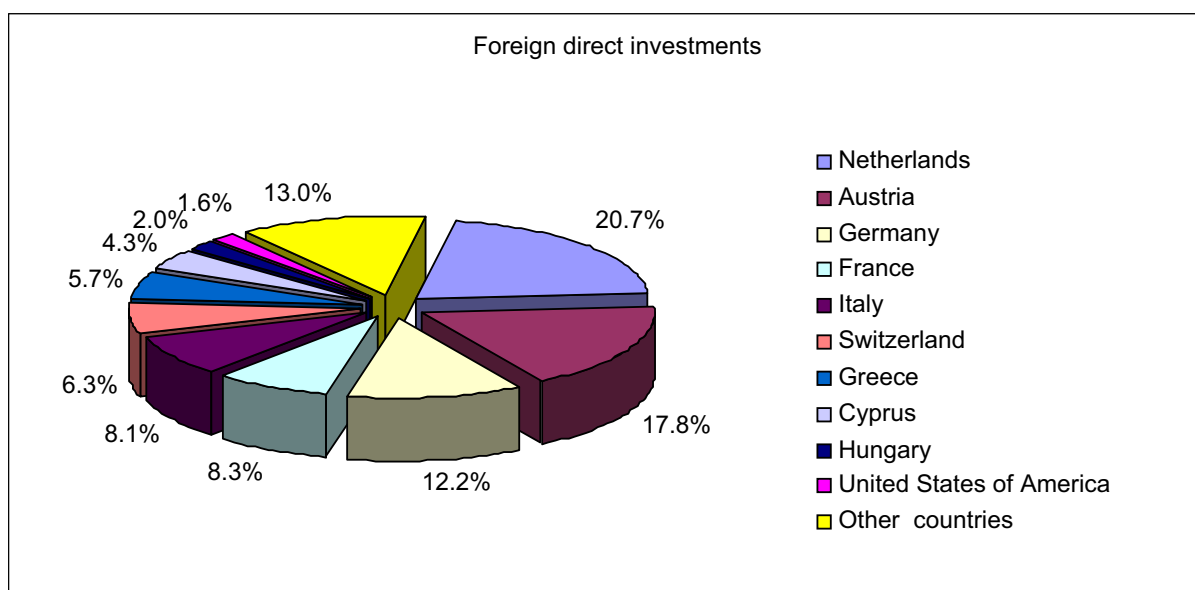


Source: www.reportereconomic.ro

Figure 5. Foreign direct investments on development regions

From the point of view of the territory it is noticeable the orientation by choice of direct foreign investments to the development region București-Ilfov (52,585 billion Euro – 62,2% of the total), other beneficiary development regions of direct foreign investments being the Centre Region (3,909 billion euro – 7,4%), the South Region-Muntenia (3,816 billion Lei – 7,3%), the Western Region (3,446 billion Lei – 6,5%) and the South-Eastern Region (3,29 billion Lei – 6,3%).

The distribution was realised depending on the country of the direct holder of at least 10% of the social capital of the companies' resident direct investment, according to the principle "Immediate Country Basis".



Source: www.reportereconomic.ro

Figure 6. The foreign direct investments by countries of provenience

The first 5 countries that came out according to the weight held in the direct foreign investments balance on current account are: the Netherlands (10,903 billion Euro – 20,7% of direct foreign investments balance on current account at the end of the year 2010), Austria (9,346 billion Euro – 17,8 %), Germany (6,398 billion Euro – 12,2%), France (4,384 billion Euro – 8,3%) and Greece (3,0016 billion Euro – 5,7%), hierarchy also registered in the year 2009.

Corporal and non-corporal immobilisations, with a balance on current account in value of 24,309 billion Euro at the end of the year 2010 represent 46,2% of the total direct foreign investments balance on current account, inducing a significant stability degree of the direct foreign investment.

The influx of capital participations in the direct foreign investments companies in value of 4,067 billion Euro is differenced in green field, merger & acquisition, and firms development.

In the year 2010, the greenfield investments registered a very reduced level, of only 46 million Euro, representing 1,1% from the capital participations in the direct foreign investments companies in the year 2010, in the same category being the investments from the merger & acquisition (M&A) category with 93 million Euro; the dominant weight in the influx of capital participations in 2010 is represented by the developments of firms with a value of 3928 million Euro, respectively 96,6 % of the participations.

The accumulations of direct foreign investments (balances on current account) in the companies established through greenfield investments named greenfield companies were also marked out to appreciate the duration impact of greenfield investments.

The activity of the direct foreign investments companies, in its ensemble, has a positive impact on Romania's external commerce, the contribution to exports being of 72,4%, while at the imports it is of 62,5%. The direct foreign investments will decrease by 20% in 2012, while the exports dynamics will be decelerated to an increase of approximately 10%, according to the surveys conducted by the Romanian Institute for Evaluation and Strategy.

As far as the workforce is concerned, according to IRES surveys, the migration risk to other European Union countries is of 77%, being one of the biggest risks registered in the last years

and there is a decrease of confidence in the European Union, only 46% of the Romanians having expectations to improve the standards of living from the European Community.

3. The evolution of direct foreign investments in crisis conditions

The impact of the economic and financial crisis on direct foreign investments occupies a primary position, but various positive factors will trigger a recurrence of the influxes of international investments sooner or later. The actual financial crisis is different from the previous ones for the following reasons:

- it was triggered in the developed countries, it had a rapid impact in the entire global economy because of the existence of various spreading channels of the globalisation effects;
- it is not part of a normal business cycle, marking out the weaknesses of the regulations of the global financial system as the lack of transparency and control mechanisms and the inability to prevent abnormal states, regulations that are excessively based upon obtaining short term profits;
- it should also mark out the changes within the economic power between the advanced economies and the emerging countries.

This situation could have a negative effect on the dynamics of investments influxes and the spread of an uncertainty state regarding the future evolution of direct foreign investments.

The crisis period can offer the companies the opportunity to buy actives at reasonable prices. The acquisition of under-evaluated actives can increase the investments. The evolution of the exchange rate and the prices decrease of the actions can lead to a series of acquisitions that aim at transactions and the possibility of consolidations in certain areas such as petroleum, the mining industry, the car industry and the financial services.

On medium term, companies are tempted to increase their internationalization degree, an aspect that represents a significant indicator in the evolution of investments influxes.

The actual crisis could be both a source of threats but also of opportunities for the public policies of direct foreign investments. The crisis could offer the chance for global policies to be implemented to consolidate the stability of the financial system and to stimulate the economic growth.

The specific measures can be adapted to stimulate the investments and maintain a favourable business and investment climate, far from protectionist measures at the level of each country.

According to a Deloitte study, Romania is the most interesting market for fusions and acquisitions from Central and Eastern Europe, a situation that won't change in the years to come. Romania occupies one of the leading positions with respect to the M&A (mergers & acquisitions) specialists for fusions and acquisitions from Belgium, Central Europe, Denmark, Germany, the Netherlands.

In Romania, the most important M&A transactions took place in the manufacturing industry, the sector of financial services, constructions and real estate transactions.

In Europe, a significant part from the merger and acquisition activity took place in the consumption and production sectors, followed by the phone sectors in Western Europe and energy and resources in Central Europe. The tendency was to close more and more cross-border transactions on the basis of the extension of the big retail operators.

The evolution of Merger & Acquisition can register a decrease as multinational companies are forced to reduce their expenses, shows the World Bank.

There is the possibility that some companies opt for the temporary or definite moving of production plants from Romania as a result of the banks bankruptcies from USA and the more and more difficult conditions to face the financial crisis. The reason for this reduction could be the reduction of expenses and the postponement of the expansion plans.

The most difficult part for the investors could be the more and more harsh access to credits to finance the activity if they don't have their own financing sources.

On the other hand, the companies that could be affected by the actual financial crisis could enter in the payment incapacity of the residual credits leading to the worsening of the situation in this way. The possibility of the acquisition by companies or fusions is not excluded in the case of the worsening of the financial situation of the companies. This moment of the economic crisis is a good moment to develop for the companies that have liquidities.

The financial crisis from USA left its mark on Romania. The need to prevent the unfavourable effects is necessary. That is why, the companies from Romania need to re-evaluate the risks to which they are periodically exposed and to carry on the necessary measures to diminish the risks that might appear.

Conclusions

The direct foreign investment in Romania still has symptoms of the relatively reduced level, respectively the imbalance of the influx on short periods. Compared analysis shows that the direct foreign investments dynamics in Romania was among the best in Eastern Europe in the last years, but the level of the yearly influx between Romania's relatively reduced volume as compared to the neighbouring countries' was and still is diminished.

Romania will have to attract capital influxes, including direct foreign investments of 15 billion Euro per year to cover a balance on current account deficit. The variable exchange rate of Romania offered it a greater flexibility and the capacity to use the monetary policies as part of its macroeconomic stabilization program. One of the priorities of the authorities should be the maintenance of Romania's attractiveness for foreign investors, even in crisis conditions.

Romania remains favoured in respect to other countries regarding the attraction of direct foreign investments, by the volume of energetic resources, by the low exports and credits weight within the Gross Domestic Product, by the fact that it doesn't have a fixed rate regime. An intelligent mobilization of the political forces so that the Romanian market remains attractive and stable further on for foreign investor is important now but also in the next period. What should we do to maintain the interest of foreign investors in Romania? A solution would be an increased predictability, for example of the exchange rate, so that investments can be planned. A fiscal stability and predictability, without increases of taxes and excise taxes, is also important.

Romania can consolidate the increasing role for many multinational corporations that operate here also in the period to come, the position of regional pole being bestowed on it not only because of its size, but mainly because of geographical positioning, being the frontier country of the European Union, with opening possibilities towards the Caucasus, Central Asia, the Balkans, Turkey.

Important element of the reorganization strategy of an economy, the attraction of direct foreign investments can have a series of advantages on its evolution, the exploitation of local resources in the benefit of growth and development, the increase of inland competition, the advantages in comparison with other variants of external financing, the improving of the exchange rate of the national currency, welfare effects.

Acknowledgment

This paper was supported by the project "Post-Doctoral studies in Economics: training programme for elite researchers –SPODE", co-founded by European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755

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