
FOREIGN DIRECT INVESTMENT AS AN ACCUMULATED SHARE OF NATIONAL WEALTH

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Abstract

By defining national wealth, the authors point out that foreign direct investment is an essential component in improving and developing the accumulated national wealth. foreign direct investment is a possibility for each country to act in order to attract funds, in the case of Romania in the European Union or other countries that can participate in the valorization of natural resources, components of national wealth, in the interest of the respective nation. foreign direct investment has the advantage that, for any country, it eliminates the need for internal and external credits, ensures job creation, secures superior management, external sales, and consequently contributes to the increase in the accumulated value of national wealth. The authors also focus on identifying the main issues regarding the organization of statistical research on the basis of which to obtain the details of the influence of foreign investments on the value increase of the accumulated elements. In this context, foreign direct investment, quality of foreign investor or foreign investment enterprise, etc. are defined. The authors formulate a series of relationships, on the basis of which, the important elements on which the activity is based in this field can be calculated and highlighted with effect in increasing the value of the accumulated elements. Details are given about the components of a statistical survey, carried out in the above-mentioned sense. A survey was carried out and its results are broadly expressed by the calculated indicators, namely the net flow and foreign direct investment balance, the distribution of foreign direct investment by economic activities, the tangible and intangible assets, the geographical distribution of foreign attracted investments and many other aspects, ultimately lead to the

conclusion of the role of foreign direct investments in the accumulated value of national wealth.

Keywords: *foreign direct investment, net flow, balance, distribution criteria of FDI, statistical research*

JEL Classification: C44, F21

Introduction

Foreign direct investment plays an important role in Romania's economic development. Statistical data on FDI can be obtained through statistical research, which is quite complex. Through statistical research, following a precise methodology, we obtain relevant indicators on the volume and efficiency of foreign direct investment. A statistical survey implies the existence of a well-structured plan to ensure step-by-step performance of the work to achieve the proposed objective. In this context, a number of terms have been clarified regarding „direct foreign investment”, namely foreign direct investor, direct investment enterprise, components of a foreign direct investment, etc. An important element of the foreign direct investment invested in research is the methodology for determining and calculating the investment. In this article, the emphasis was also on analyzing the results of statistical research.

Literature review

Alfaro et al (2004) analyze the various links between foreign direct investment, financial markets and economic growth. Anghel et al. (2016) analyze the correlation between foreign direct investment and imports, concluding that the link between the two indicators is direct, and for the foreign direct investments made there were many imports that were complementary and had the effect of increasing their value. Anghelache et al. (2016) demonstrate with the regression model that foreign direct investment determines economic growth by analyzing the correlation between Gross Domestic Product and FDI both graphically and by means of a linear linear regression equation. Anghelache et al (2016) study and demonstrate that an effective way to grow the Gross Domestic Product is to stimulate exports, which are seen as an effective source of economic welfare. Anghelache et al. (2015) perform a series of analyzes on the dynamics of FDI flows attracted at national level, as compared to the EU average, as well as on the evolution of FDI flows attracted by EU countries compared to Romania. Anghelache and Anghel

(2015) carry out an analysis of foreign direct investment in Romania, from the point of view of the dynamics of the foreign direct investment balance, making a comparative analysis with the developments at European level. Anghelache et al. (2013) performed a comprehensive study on the evolution of flows of foreign direct investment in Romania, types of foreign direct investments and income from them, and the allocation of economic balance FDI by main, by region and by country of origin. Anghelache, Mitruț and Voineagu (2013) is a reference work in the field of macroeconomic statistics and national accounts, which presents theoretical and practical notions regarding the content of macroeconomic analyzes. Anghelache (2007) analyzes GDP in Romania and attracts foreign direct investment, highlighting GDP growth factors as well as direct development of foreign capital investment with a view to integration into the European Union. Blonigen et al. (2007) use econometric techniques to examine the spatial correlation between FDI and alternative (neighboring) regions. Bode and Nunnenkamp (2007) show that both quantitative and qualitative characteristics of FDI affect income and per capita growth. Boudier - Bensebaa (2005) conducts a study on the possibility of developing countries in Central and Eastern Europe through foreign direct investment. Bütke and Milner (2008) show that adherence to international trade agreements allows developing countries to attract more FDI and thus increase economic growth. Cicak and Soric (2015) study, based on VAR models, the relationship between the growth rate of foreign direct investment and GDP in transition European countries. Jones and Wren (2006) carry out an analysis of foreign direct investment and the regional economy. Masso et al. (2007) analyze the impact of foreign direct investment on employment in countries of origin in a low-cost transition economy. Pistoreshi and Rinaldi (2012) study the relationship between real exports, imports and GDP, using cointegration analysis and causality tests.

The main theoretical aspects regarding the methodology and organization of statistical research

Statistical research implies the establishment of a detailed plan providing for the clarification of the following issues.

The purpose of the research is to determine foreign direct investment (FDI) at the end of the year, based on the current balance in the balance at the beginning of the year considered and movements

(flows) during the financial year considered in enterprises that have made direct investments.

The statistical survey provides the necessary data for determining the FDI and conducting analyzes on direct foreign investment on the main branches of the national economy and by development regions.

Information on the part of the direct foreign investment in tangible and intangible assets (allows for analyzes on the sustainability of foreign direct investment), the reinvested part of the net profits, the contribution of credits to the foreign investment, as well as the in-kind contribution to direct foreign investment (for non-financial companies).

At the same time, the results of the statistical research can be used to adjust data on foreign direct investment in the balance of payments for the year considered and data on Romania's international investment position at the end of the year (balances) as well as data on FDI for the following year (flows and balances).

Foreign direct investment is a lasting investment relationship between a resident entity and a non-resident entity. As a rule, involves the exercise by an investor of significant managerial influence in the undertaking in which he invested.

Direct investments are considered: the paid-up share capital and the reserves to an investor holding at least 10% of the subscribed share capital of an enterprise, the loans between that investor and the enterprise in which he invested, as well as the reinvested earnings.

By **direct foreign investor** we understand a legal person, a natural person or a group of persons acting together, holding at least 10% of the subscribed share capital (or the capital of entities without legal personality) or at least 10% of the votes, an enterprise located outside its own country of residence.

The direct investment enterprise is an enterprise with or without legal personality, in which a foreign investor owns at least 10% of the subscribed share capital or of the voting rights, or of the endowment capital in the case of enterprises without legal personality (branches). Possession of at least 10% of the subscribed share capital or of the voting

rights, respectively of the endowment capital, is of prime importance in establishing the direct investment relationship.

- *Foreign direct investment components are:*

- Equity: includes subscribed and paid-up share capital, both in cash and in-kind contributions, held by non-residents in resident companies, as well as the related share of reserves; accordingly, in the case of branches, the endowment capital available to them shall be taken into account;
- Other capital;
- Credits received by the direct investment enterprise from the direct foreign investor;
- Credits granted to the foreign investor directly to direct investment.

- *Methodology for determining foreign direct investment*

- FDI flows are determined by aggregating the change in equity of the foreign investor directly in the reference period with the change in net credit received by the direct investment enterprise from the foreign investor directly in the same period as follows:

$$Fisd = \Delta CS +/ - Pri +/ - \Delta (Cp - Ca), \quad (1)$$

where:

Fisd – the flow of foreign direct investment;;

CS – share capital;

Pri – profit reinvest;

Cp – credit received from the foreign investor;

Ca – credit to the foreign investor.

Revenue reinvested by a direct foreign investor is the difference between the share of the net profit of the financial year attributable to it and the dividends distributed to it during the financial year, irrespective of their financial year of origin:

$$Pri = Pns - Dr, \quad (2)$$

where:

Pns – net profit (after tax), attributable to the foreign investor according to the percentage share of the share capital;
Dr – dividends distributed to the foreign investor (including those derived from retained earnings, assigned in the reference financial year).

Net losses of direct investment enterprises in the reference year are considered as „negative reinvested earnings” and in aggregate data aggregation operations (by development region, by CAEN divisions by country of origin of investment and total), the profit reinvestment recorded by profitable enterprises diminishes by its value.

- The reference period FDI (equity and net credit received from the direct foreign investor) is the initial FDI for the reference period plus the FDI flow of that period as well as value adjustments due to revaluation and accounting restatement of some elements of equity.

The scope of coverage is represented by the total number of enterprises in Romania which have foreign direct investment (direct investment enterprises) in the reference year. The statistical research on direct foreign investment is carried out at the headquarters of the direct investment enterprises, regardless of the form of ownership, operating in one of the areas specified in the NACE activity classification (Classification of Activities in the National Economy), distributed throughout Romania and which in the reference year declared to an administrative source that they have direct foreign direct participation in the share capital of at least 10%.

The statistical survey plan is based on a representative sample of enterprises with direct foreign investment in the non-financial business, credit institutions and insurance companies, whose representativeness is provided both at national level and by development regions and by CAEN divisions Rev. 2.

The information is collected through questionnaires compiled by responsible persons from direct investment enterprises, forms transmitted and received by county statistical offices.

The information source for the extraction and completion of questionnaire data is the balance sheet for the financial year of the

considered year as well as other financial and accounting records existing at the level of the direct investment enterprise.

- *Reference period*

The indicators (information) in the questionnaires refer to the beginning, to the activity during the year and the end of the year considered.

- *Recording time*

June to September.

- *Statistical forms used in research*

Three types of questionnaires can be used to collect information:

- The Foreign Direct Investment Questionnaire in the year considered for non-financial business companies;
- The Foreign Direct Investment Questionnaire for credit institutions;
- Foreign direct investment questionnaire for commercial insurance companies.

- *Sample of statistical research*

The survey base of INS from legal entities (enterprises) and branches of foreign firms in Romania, which operates in one of the areas specified in the Nomenclature of Activities CANE Rev. 2 (Classification of Activities in the National Economy).

The sources that can be used to create the polling base are:

- Business Register (REGIS);
- The balance sheet for the financial year of the previous year;
- Balance sheet for the financial year 1 st semester of the considered year;
- Trade Register.

The type of survey used is a random stratified survey, in which layers are defined based on the following stratification variables:

- The Economic Development Region;
- The main activity of the enterprise at division level CANE Rev. 2 (2 digits);

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- Enterprise size class according to the average number of employees:
 - 0-19 employees;
 - 20-49 employees;
 - 50 employees and over.

When determining the volume of the sample, it may be considered:

- determining the optimal volume by allocating Neyman;
- ensuring a minimum number of enterprises at each layer level;
- obtaining estimates of the main characteristics - turnover and average number of employees - affected by errors of $\pm 3\%$ and guaranteed with a probability of 97%.

Neyman allocation is a method of optimizing the number of elements extracted from each layer in a random stratified survey based on the total number of elements to be extracted and the variability of the observations within each layer determined by the number of elements of the layer and the mean square deviation therein.

- For the calculation of the expansion coefficients, four steps must be taken:
 - calculation of base weights;
 - compensation of non-responses;
 - sample recovery and
 - determination of extension coefficients (final weights)..

Estimates corresponding to the whole population of direct foreign investment enterprises in the reference year are obtained by extrapolating the results of the investigation on the basis of the enlargement coefficients attributed to all enterprises in the sample.

Conclusion

From the authors' presentation, it is clear that foreign direct investment is an important part of the accumulated elements of national wealth. Secondly, there is a study of the effect of foreign direct investment on the growth of the accumulated share of national wealth. The methodology for determining foreign direct investment is an approach of the authors showing the possibility of this evolution of the attraction of foreign direct investments as an accumulated part of

the national wealth. From the example under consideration, it is directly conveyed the conclusion that foreign direct investment must be especially supported and legally guaranteed. In this way and only in this way, by guaranteeing the security of the foreign direct investments when they are made in Romania, in the form of companies, multinational companies can be guaranteed the increase of the volume of foreign direct investments in our country. In the same vein, it is clear that the reaping of the funds made available to Romania by the European Union must be capitalized in a much higher percentage than is currently happening in order to ensure the increase of the accumulated values of the foreign direct investments. The final conclusion, which is also the result of the practical study, is that foreign direct investment companies play an important role, and they must be given special attention both by harmonizing the favorable legislation, attracting them and by means of projects that will lead to their capitalization.

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