
THE ROLE OF INVESTMENTS AND BUSINESS ENVIRONMENT IN ECONOMIC DEVELOPMENT

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Abstract

Investing is the safest prospect of economic growth. Investments can be made by the business community (large companies, consortia, multinationals) operating on the territory of Romania. Investments can also be realized through projects funded by the European Union budget. Thus, new jobs are created, sustainable growth is assured and positive developments can be predicted. Investments should be based on the allocation of funds through internal possibilities, but also by attracting foreign direct investment. From this point of view, the legislative framework, as well as the attractiveness of the Romanian economy, have an important role. We also find that the attraction of foreign investment is different from one economic sector to another. In this article, the authors presented the main issues and, at the same time, sought to highlight the effect that investments have on the business environment.

Key words: investment, business environment, forecasting, economic growth, economic branch

JEL Classification: E22, M21

Introduction

In this article, the authors carried out a careful analysis of their investments and their role on the Romanian economy. It presents the main developments, the structure of investments, showing that the stimulation of investments according to the provisions of the present Romanian legislation must be based on equal treatment, transparency, efficiency of the use of facilities, confidentiality and guarantee of the intellectual property right, the eligibility in the depending on the origin of the funds and, last but not least, the stimulation of domestic investments as well as foreign direct investment. An analysis is made of the structure of investments on localities, development regions, emphasizing the need for new measures to be taken to ensure that foreign investment has a superior effect. In the alternative, there is a need for stable and attractive legislation for foreign investors.

Literature review

Aisen and Veiga (2013) analyzed how political instability affects economic growth. Anghel, Anghelache, Marinescu and Dumbravă (2018) conducted a study on the net investments in Romania's national economy at the level of 2017. Anghelache, Partachi, Sacală and Ursache (2016) used econometric models in the analysis of the correlation between gross domestic product FDI. Anghelache, Jweida, Popovici and Stanciu (2016) studied in an article the correlation between foreign direct investment and export. Anghel, Anghelache, Avram and Burea (2017) studied foreign direct investment as part of national wealth. Greenwood, Sanchez and Wang (2013) quantified the impact of financial development on economic development. Popielas (2012) treated the harmonization of investment services at the European Union level on the example of investment funds.

Research methodology, data, results and discussions

• Evolution and structure of investments

The evolution of the economy in the period after 1990 was influenced, on the one hand, by structural changes in the formation and use of resources and, on the other hand, by the behavior of economic agents over capital investment. Investments, especially at the beginning of this period, were achieved in a less favorable business environment, marked, in certain periods, by the decline in production, the budget deficit and the balance of payments, the high inflation rates, high borrowing rates, a continually impaired exchange rate, the lack of managerial exigency of economic operators, and the imperfections of the legislative and institutional framework.

On this background, the volume of investments recorded fluctuations from one year to the next. In the first years of the transition, against the backdrop of the structural, macroeconomic and sectoral imbalances, the decline in goods production and labor productivity, there was a strong reduction in investment that was generally aimed at upgrading production and sales capacities, mainly in the private sector of the economy.

As the private sector grew, private investors widened their scope of business, amid the creation of the legislative and institutional framework, as well as increasing the investment effort.

The general legal framework regarding the support measures from the Romanian State granted in order to stimulate the investments was regulated by the Government Emergency Ordinance no. 85/2008 on the stimulation of investments, with subsequent amendments and completions.

„The stimulation of investments, in accordance with the provisions of this Emergency Ordinance, is based on the following principles:

a) equal treatment - non-discriminatory application of the criteria and means of granting facilities;

b) transparency - informing all interested parties of the information regarding the procedure for granting investment facilities;

c) the efficiency of the use of the facilities - application of criteria for granting investment facilities and monitoring their realization, reflecting the economic advantages of the investment projects, taking into account, where appropriate, social effects, the protection of the environment and the promotion of sustainable economic development;

d) confidentiality - ensuring the protection of information about the intellectual property rights of investors as well as other data that might be prejudicial to their legitimate interests;

e) eligibility according to the origin of financing funds „.

By region of development, most of the dwellings were put into use in the Northeast regions (17.8% of the total country), Bucharest-Ilfov (14.7%), Southeast (14.6%), South-Muntenia (13.5%) and Northwest (13.1%).

The branches with larger investment volumes are: trade / services (transport, storage and communications, wholesale and retail trade, repair of motor vehicles, motorcycles and personal property, real estate transactions, rentals and services mainly provided enterprises), industry and construction.

Most finished homes were made from private funds. These accounted for 93.1% of the total number of completed dwellings.

By region of development, most of the dwellings were put into use in the regions: North-West (20.9% of the total country), North-East (17.3%), Bucharest-Ilfov (12.9%) and Southeast (12.2%).

By region of development, most of the dwellings were put into use in the North-West (19.8%), North-East (18.7%), South-East (13.4%), South-Muntenia (12.9%) and Bucharest-Ilfov (11.3%), Center (10.6%). The branches with a larger investment volume are: trade / services (wholesale and retail, motor vehicle repair) and industry.

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By region of development, most of the dwellings were put into use in the regions: North-East (19.1% of the total country), North-West (15.8%), South-Muntenia (14.8%) , South-East (13.5%) and Bucharest-Ilfov (13.2%).

The branches with a higher investment volume are: industry and commerce / services (wholesale and retail, vehicle repair).

Most finished homes were made from private funds. They accounted for 94.9% of total dwellings.

By region of development, most of the dwellings were put into use in the regions: North-East (20.5% of the total country), Northwest (16.1%), South-Muntenia (14.9%) , South-East (13.6%) and Bucharest-Ilfov (11.1%).

In 2012, the total net investments realized amounted to 89,092.3 million lei, increasing by 1.45% compared to the previous year. The most significant development was recorded in industry, where the registered growth was 7% compared to 2011.

Investments in industry in 2012 were 1.10 times higher than in 2009 and were mainly oriented towards the manufacturing industry (48.9% of the total industry), a sector which decreased by almost 18 % compared to 2009. In the extractive industry, investments in 2012 increased by 6% compared to 2009.

It can be noticed that the highest share of services is held (41.7% in 2012), but it is also worth mentioning that the structure of investments in industry improved during the analyzed period. Within the services sector, significant investments were made in activities related to wholesale and retail trade and repair of motor vehicles and motorcycles, transport and storage services and real estate transactions.

Investments in the national economy in 2013 recorded a decrease of 9.3% compared to 2012.

Investments in new construction works decreased by 9.4%, while investments in machinery, including means of transport, decreased by 13.1%, compared to 2012. The branches in which a higher volume was achieved The big investments are: industry, trade and services.

• Foreign investments and their role in economic growth

A special place in the volume of investments made in the Romanian economy is held by foreign investments. Foreign investment policy is required to be seen as a first step in supplementing domestic capital requirements, but also as a source of introduction of new technologies, know-how and performance management.

At present, the economic reform is aimed in particular at finalizing the restructuring and privatization of the big state-owned enterprises, as well as ensuring the coherence of the different components of the reform. Therefore, the foreign investment policy is aimed at the continuous growth of production and, on this basis, exports, the development of small and medium-sized enterprises and a balanced regional development, these being considered to be major instruments that can materialize the prerequisites of European integration Romania.

The net FDI flow in 2012 stood at € 2,138 million and is structured as follows:

- The net equity of foreign direct investors in the capital of foreign direct investment enterprises in Romania amounting to EUR 795 million (37.2% of the net FDI inflow). Net equity is the result of a decrease in equity capital of EUR 2,676 million, with net loss of EUR 1,881 million. The net loss resulted from a decrease in FDI profits made in 2012 in the amount of EUR 4 691 million in dividends distributed in 2012 amounting to EUR 2 212 million, after which this value was reduced by the losses of FDI enterprises in the year 2012 amounting to EUR 4,360 million. The method of calculation is in line with the international methodology for determining the reinvested profit by the FDI enterprises, respectively the net loss recorded by them;

- The net credit received by foreign direct investment enterprises from foreign direct investors, including within the group, in the amount of EUR 1 343 million, representing 62.8% of the net FDI flow.

From the analysis of data on the net flow of FDI and its components, it is highlighted the following:

- In most areas of economic activity, where FDI has an important share, there is an increase in capital holdings in FDI enterprises, which means the continuation of the investment process in 2012. The areas with the most significant capital increases were the industry (EUR 1 072 million), and manufacturing (EUR 529 million) and energy (EUR 497 million); Other areas with major capital investments were financial intermediation and insurance (EUR 646 million), and construction and real estate transactions (EUR 295 million);

- The main economic areas where profits exceeded losses were financial intermediation and insurance (EUR 376 million profit, EUR 1,015 million loss) and real estate construction and transactions (EUR 255 million profit, EUR 747 million losses);

- By allocating important amounts as dividends in the aforementioned areas in 2012, the net loss (profit less dividends distributed less losses) increased. Thus, dividends of EUR 134 million were distributed in financial intermediation and insurance and in the amount of EUR 158 million in construction and real estate transactions;

- Several areas of activity benefited from important funding on the net-mother loan, namely: manufacturing (EUR 606 million), energy (EUR 173 million), trade (EUR 423 million), construction and real estate transactions (EUR 213 million)

- In industry, although significant losses were recorded (EUR 1 491 million) and dividends of EUR 960 million were distributed, by the level of

equity holdings (EUR 1 072 million), of net loans received (EUR 862 million) and its profit (EUR 2,345 million), it benefited from a net FDI flow of EUR 1,828 million, representing 85.5% of the net FDI flow of 2012.

The net FDI flow in 2011 stood at € 1,815 million. The net equity of foreign direct investors in Romanian foreign direct investment enterprises amounted to EUR 1,512 million (83.3% of the net FDI inflow).

The final balance of FDI at December 31, 2012 was EUR 59,126 million, 7.2 percent higher than the final FDI balance for 2011. This result was obtained by adding to the initial balance of the net FDI flow of the positive / negative value differences stemming both from the revaluations due to the change in the exchange rate of the leu and the prices of certain assets, as well as from the accounting re-accounting of the value of the initial balances of some reporting enterprises.

The final balance of FDI as at 31 December 2011 was EUR 55,139 million, up 4.9% from the final FY0 balance of 2010. This result was obtained by adding to the initial flow of the net FDI inflow the value differences positive / negative both from the revaluations due to changes in the exchange rate and the prices of some assets, as well as from the accounting re-accounting of the value of the initial balances of some reporting enterprises.

Shares of the direct foreign investment enterprises (including reinvested earnings) of the foreign direct investment enterprises amounted to EUR 39,266 million (66.4% of the final FDI balance) at the end of 2012 and the total net credit they received from the investors foreign direct investors, including within the group, recorded the level of 19,860 million euros, representing 33.6% of the final balance of FDI.

Shares of the foreign direct investment enterprises (including reinvested earnings) at the end of 2011 amounted to EUR 37,001 million (67.0% of the final FDI balance) and the total net credit they received from the investors foreign direct investors, including within the group, recorded the level of € 18,138 million, representing 33.0% of the final balance of FDI.

The final balance of FDI as at 31 December 2010, resulting from the addition to the original balance of the net FDI inflow, as well as the positive / negative value differences arising from the revaluations due to the change in the exchange rate and the prices of some assets and from the accounting re- initial balances stood at € 52,585 million, up 5.2% above the final FDI balance of 2009.

- **Distribution of the balance of foreign direct investment on the main economic activities**

From the point of view of the FDI structure by economic branches (according to CANE Rev. 2), they were mainly located in manufacturing

(31.3% of the total). Within this industry, the most represented branches are the processing of crude oil, chemical products, rubber and plastics (6.7% of total FDI), transport industry (5.4%), metallurgy (4.9%), industry food, beverages and tobacco (3.7%) and cement, glass, ceramics (2.8%).

In addition to industry, other activities that attracted major FDI include financial intermediation and insurance (representing 18.5% of total FDI), trade (11.4%), construction and real estate transactions (9.2%), information technology and communications (4.8%).

It is noted that tangible and intangible assets with a balance at the end of 2012 of EUR 27,412 million represent 46.4% of the total FDI balance, leading to a significant degree of stability of foreign investment.

The economic activities in which FDI are found in tangible and intangible assets at a significant level are: industry (27.7% of total FDI, manufacturing with 17.9% of total FDI), trade (5.9%) and construction and real estate transactions (4.8%).

In 2011, from the point of view of the orientation of foreign investors towards economic branches (according to CAEN Rev.2), FDI was mainly located in the manufacturing sector (31.5% of the total). Within this industry, the most represented branches are crude oil processing, chemical products, rubber and plastics (6.3% of the total), transport industry (5.2%), metallurgy (4.9%), food industry , beverages and tobacco (4.1%) and cement, glass, ceramics (3.2%).

Other activities that attracted major FDI include financial intermediation and insurance (18.2% of total FDI), trade (11.4%), construction and real estate transactions (10.7%), information technology and communications %).

From the territorial point of view, the orientation of the FDI to the development region BUCHAREST-ILFOV (60.6%) is mainly observed, the FDI beneficiary development regions being the CENTRU region (7.8%), the VEST region (7.6 %), SUD-MUNTENIA (7.2%) and SUD-EST (5.5%).

I mention that FDI has been located locally according to the registered office of foreign direct investment enterprises, which is not always the place where the economic activity takes place.

Depending on the origin, the number of incorporations of foreign companies in the subscribed share capital reflects a close proximity of Romania to the European economy. Thus, 85.83% of the investment comes from Europe and only 6.57% of countries located in Asia, North America or other regions of the world.

The first ten places in terms of total subscribed capital, expressed in euro, by countries of residence of investors, were: France, Germany, Cyprus, Italy, Holland, China, Luxembourg, Poland, USA, Russia.

Although the foreign investment factor is considered to be fundamental to the positive evolution of any national economy, not enough action has been taken to increase Romania's attractiveness in the perception of foreign capital. A number of major difficulties in this respect are certain provisions in economic legislation and fiscal policies, so that the impact of tax measures on the vision of existing and potential foreign investors has not always been a priori assessed.

It is necessary to adopt convincing and vigorous measures to attract additional capital from abroad, measures that will improve the retention of foreign investors.

Also, part of the investors belong to the diaspora, being of Romanian nationality.

• Analysis of the evolution of domestic capital investments

We have talked so far about how foreign capital investments have been made in our country. Next, we will address some aspects of attracting domestic investment.

The Romanian domestic capital was initially insignificant, due to the lack of financial means and the impossibility of Romanian individuals or legal entities to participate in some projects either independently or in collaboration with foreign trade companies.

Former „social” shares (about \$ 38 billion in 1990, about \$ 5 billion) were automatically passed from the sphere of production (as a source of funding) to consumption. This shift was due to the lack of productive activities and stockpiles of products needed by the population, which had a double negative effect: first, development funds were diminished, and second, a surplus of monetary mass, without coverage in products and services at the purchasing power level of 1990.

Existing social parties in 1990 could also be transformed into shares, thus forming the embryo of privatization in Romania. Thus, inflation in our country was not stimulated by the imbalance in the ratio between the low volume of products and services, on the one hand, and the very large money that the population had in the short term, at the time, on the other hand part.

In this context, company law, although positive in essence, could only create the framework for asserting the free initiative and market economy mechanisms that, in the absence of genuine and consistent domestic capital, could not generate far-reaching developments .

The long-term maintenance of a mixed economy structure through the coexistence of the private sector in training was almost exclusively small and medium-sized enterprises with a state or mixed sector at the level of the big economic units, subjected, in turn, to successive and difficult privatization

formulas, was not able to give the entire national economy the positive trend assumed by the reform process.

As time passed and under the impact of economic and fiscal policy measures, the big economic units were decapitalized and devalued, so that their privatization became, irrespective of the method envisaged, difficult to achieve or, at best, feasible under conditions ineffective. In the process of privatization, the issue of massive recourse to credit can not be posed because the national currency is expensive, the positive commercial banks' interest rates are high and the investments can not bring incomes (profit) until a future period. It is important that the privatization process that will be completed will leave the real situation on the Romanian capital market now that our country has been accepted in the European Union.

• **Some aspects of the business environment**

In the transition years, the business environment, although faced with a series of difficulties (including the lack of legislation in the field, manifested in the early years, the various practices of state intervention in the economy, interferences in the activity of firms by public servants, outside their current duties), has continually improved the functioning of economic mechanisms and market access. The last years have been marked by some progress, of which I mention: the establishment of a single office in the chambers of commerce and industry, whereby, at the territorial level, not only shortened the duration of establishment and authorization of new companies (from 90 days, about 20 days), but also a reduction of establishment fees (by 40%); improving the legal and institutional framework for investors, which was completed by the establishment of the Romanian Agency for Foreign Investments; initiating and implementing legislative measures to support small and medium-sized enterprises, the most important of which is the reduction of the corporate tax on reinvestment.

For foreign investors coming to Romania, a series of incentives have been provided to help improve the country's economic development, in particular, to accelerate the industrialization of disadvantaged regions and to develop small and medium-sized enterprises.

At the end of 2013, over 124,000 registered companies were registered at the National Trade Registry Office during the year.

Most registered companies had as main activity the trade - wholesale and / or retail - of the total number of active enterprises. Industrial companies with productive activities were found in the following areas: food and beverage industry, light industry, wood processing, metal and metal products, furniture production, publishing, printing and reproduction of footage.

From the point of view of the size of the trading companies, the largest

share was held by small and medium-sized commercial companies, with up to 249 employees.

Conclusion

From the authors' study on the evolution of investments in our country and their effect on the business environment, it follows that investments are the main element that can ensure the economic growth and be part of the country's sustainable development program. On the other hand, domestic or foreign investment must be effectively used to have the desired effect. At the same time, the conclusion is that Romania must have some particular domains which, in the context of the structure and resources of the national economy, are those that bring additional value added growth through additional investments. The study is just a brief synthesis, which can be expanded and a concrete analysis based on statistical methods and macroeconomic models can be made.

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