PROMOTING AND ATTRACTING FOREIGN DIRECT INVESTMENT

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Abstract: *FDI is an important element of the economic development of any country and its functioning on market principles. They have a great importance for strengthening the economy of countries in transition and their integration into the world's economy. The modernization of national economies occurs with FDI help, by implementing advanced technologies, know-how sites, the most powerful equipment and the new quality standards by switching to a higher type of growth. The purpose of this research is to identify of the policies to attract and promote FDI, adopted by host countries for foreign investors and are highlighted beneficial aspects of foreign investments flows on recipient economies. The research results show that policies aimed at ensuring access to foreign markets, those that are considering providing commercial facilities and last, but not least, policies focused on tax incentives are very important for foreign investors.*

Keywords: Foreign direct investment; Economic growth
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INTRODUCTION

FDI were examined in the economic literature in various aspects of their impact on countries of origin or the host, benefits, costs, effects and variables observed or obscure etc. In the global economy, FDI is considered as an important factor and specific of economic growth.

Foreign direct investment (FDI) is particularly important for economic integration, opening up opportunities for accelerating growth, innovation and restructuring organizations.

A growing importance is given today to the problem of foreign direct investment (FDI), which is seen as the main factor of stimulating the economic growth. Attracting FDI has become increasingly important, most often based on the assumption that greater FDI flows bring some benefits to the economy of the receiving country. Foreign direct investmentis an important and highly effective source for the development of a national economy. For Romania, as a country that wants to integrate into the world economy as efficiently as possible, but has limited resources of capital, FDI is a way to achieve such an objective. But beyond awareness of this reality, it is necessary to identify and implement practical and sustainable ways of attracting investments.

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1. FDI - METHODS FOR ATTRACTING AND PROMOTION

To encourage or discourage foreign investment in certain moments or economic sectors, host country governments resort to a series of direct measures (such as subsidies, tax exemptions or reductions, etc. acting as incentives that induce foreign firms to act in a certain direction) or indirect (consisting of regulations and/or restrictions designed to increase the cost of doing business and to determine the reduction or closure of certain operations).

In the light of the many advantages that FDI bring to host economies, attracting these flows is one of the most effective ways to solve, especially for emerging countries. The success of taking up on such a path depends on the extent to which these countries manage to influence the branch focus and the quality of FDI flows through specific policies, targeted. A sober attitude and endorsed across their own interests but also of the partners' ones is likely to increase the chances of the recipient country of influencing the investment process and the impact on its own economy. In receiving countries, in general, and particularly in those in transition, setting and especially the implementation of some policies to promote FDI has contributed significantly to the attraction of foreign capital. It talks about three generations of policies to promote foreign investment. (World Investment Report, 2001 Promting Linkages, UNCTAD, United Nations, New York and Geneva, 2001, pp.123-124)

In the first generation governments adopt "friendly" policies regarding the foreign investors, resorting to liberalization by reducing barriers to FDI inflows, by providing non-discriminatory treatment for foreign investors in regard to the domestic ones by improving the functioning of market mechanisms. Many countries, especially those with underdeveloped institutions may long continue to attract FDI in this way, provided that the underlying economic determinants which lie on the basis of achieving foreign investment are the necessary ones.

The transition to the second generation policies to promote FDI occurs when the host government is actively seeking to attract foreign investment by promoting the country as a location for investors. This approach is materialized in the creation of national investment promotion agency. Such policies are widespread since "World Association of Investment Promotion Agencies" (WAIPA), founded in 1995, currently has 244 members from 162 countries.

The third generation of investment promotion policy is based on the premise that the first two generations are only a starting point for the approach to be followed by foreign investors at the industry level and firm to meet their needs while taking into account the priorities development of the country. Such a strategy is particularly effective if the country has "clusters" based on specific competitive advantage, exploiting the natural propensity of firms to agglomerate in a determined

geographic area which may subsequently acquire an established brand. Elementary, essentially in such a focused strategy is thus, the development and promotion of specific locations onwards potential foreign investors. The major difficulty lies primarily in the development of such areas "established name", which takes time and involves considerable efforts in terms of costs and institutional capacities. However, third-generation policies are increasingly widespread, as evidenced by the emergence of numerous investment promotion agencies at regional level (within a country) and even municipal. This also means an additional challenge: the need to coordinate policies at different administrative levels as without adequate coordination, there is the risk from the competition between regions of a country for true "tax wars" to arise or to be unable to reach to respect commitments to investors.

In general terms, the economic and geographic space of a country should become attractive for one or more points of view, so as relocating production of multinational companies have it as target. Therefore government policies should be oriented towards the attractiveness of the space it promotes.

In this respect, the main lines of approach there should also be reflected (UNCTAD, 2002): a) Improving access to input, both local and imports, through trade liberalization measures; b) Decrease production costs by offering incentives, such as to increase the potential of price competitiveness; c) Establishment and development of export processing zones; d) Develop workforce by creating skills in tune with international developments.

When selecting the direction to be followed it must be taken into account that a policy can be operated only under certain circumstances and in a certain configuration of available resources. Site specificity must prevail in the election process policy to be adopted.

In this context, FDI promotion agencies play an important role. Their aim should be to attract FDI to maximize existing competitive advantages and contribute to the overall development strategy of the target country.

The responsibility of the specialized agencies is to "direct" investments on those sectors that can maximize the benefits and to ensure the legal framework in which companies will work. Ensuring a stable economic and legal usually contribute at the increasing of the attractiveness of the economy to FDI.

Whatever type of FDI attracted, the ultimate goal is to contribute to the development of the nation to which they focused. According to UNCTAD, in order to attract FDI, countries act through one or more levers (UNCTAD, 2002, pp. 197-214): a) Policies aimed at ensuring access to foreign markets; b) Policies aimed at improving access to imported inputs; c) Provide commercial facilities; d) Export performance requirements; e) Use incentives.

a) Policies aimed at ensuring access to foreign markets

Access to foreign markets is a prerequisite in the process of attracting export-oriented FDI. Worldwide, amid slowing economic development there is a slight increase in protectionism. Increasing frequency of the use of anti-dumping measures, compensatory or of protection has become as worrisome as the frequent use of incentives for investment in developed countries. The occurrence of such measures can be a barrier to exports from developing countries, hindering the process of attracting FDI.

Also in the home countries of FDI there may occur a number of measures to counteract the decision to relocate production to markets exhibiting obvious cost advantages. Thus, incentives and subsidies designed to prevent relocation of production abroad reduces FDI flows towards emerging economies.

At regional or international level for some industries some special schemes for conducting trade may be formed. These may affect foreign investors relocating production from developed countries into developing ones. Called **production sharing schemes** (UNCTAD, 2010), these constitute the tariff arrangements in the developed countries, in response to competition coming from countries that present low cost of labor. Consequently, developing countries accounted for export processing zones, free trade zones or industrial parks. Usually, the scheme of operation of these measures involves the export of components from developed countries, assembly or processing them in such areas and re-exporting to developed countries in the form of finished products. In this case, only the re-exported product is subject to customs.

Another type of commercial arrangement with implications for decisions to relocate production is preferential treatment on access to export markets. There are many developing countries that benefit from such agreements in the developed countries (Hughes, Brewster, 2002). Such a commitment can increase an investor's willingness to relocate production in the recipient country.

FDI are also heavily influenced by the inclusion of the target country in a regional integration scheme, in terms of customs or political. Examples are NAFTA (North American Free Trade Agreement) or the European Union in such unions, international companies being forced to use local inputs. This is a desirable thing, but when the local market can not provide the quality expected by the international companies' expansion orientation towards export production tends to diminish.

Preferential market access treatment or production' sharing schemes play an increasingly lower role, however, as long as they exist, they can influence FDI flows. During this framework, countries offering the most competitive environment for export production will ultimately be the beneficent of such investments.

b) Policies aimed at improving access to imported inputs

Trade regime FDI recipient country may affect the activity of international companies whose production is export oriented. In particular, international companies aimed at improving the efficiency recur to imported intermediate goods in the host country, using, in particular, the benefits of labor cost.

In these circumstances, any restrictions or tariffs on imports of goods affect the total cost of production, thus reducing the price competitiveness of export products. In many cases, performance requirements of foreign investors are accompanied facilities regarding the necessary imported goods for the production process.

Thus, there are a number of measures to reduce production costs. Duty drawback system is a commonly used method to tax exemption of imported goods used in production for export. According to UNCTAD, the goods eligible for tax exemption may include raw materials and other materials used in production, such as energy, fuel or oil (UNCTAD 2013).

Regarding the preferential conditions on imported goods, an important issue is the indirect exporters. They are represented by local companies that use imported inputs for production for international firms that perform export activities. Therefore, local suppliers of components, in these conditions, may become indirect exporters. Normally they should benefit, in turn, of such tax exemptions, so as to stay competitive on the home market. (Felker, Jomo, 2000). Such facilities granted to indirect exporters are found in countries such as Mexico, Taiwan, Korea or Kenya.

The application of such a system is difficult enough and leaves room for speculation, giving illegal recovery tax loopholes applied to imported products.

c) Provide commercial facilities

Measures on trade facilitation involve the development of a transparent procedure regarding international transactions, on the basis of practices and habits internationally accepted. These practices are designed to simplify procedures and harmonize the system of legislation on trade and transport (UNCTAD, 2012). Thus, a higher speed of movement of goods and information between different trading partners results.

UNCTAD has developed specific solutions designed to solve such problems. One such initiative is the ACIS (Advance Cargo Information System). It provides real-time information on transport operations, including the place of goods and transport equipment.

An embodiment, at least as important is the development of the Customs automation system ASYCUDA. This system is designed to reduce customs formalities, in the year 2012 being

implemented in over 90 countries. In the Philippines, the actual results of this system are translated into a significant increase in the rate of revenue collection and reduce the time for issuing customs forms from four days to four hours.

d) Export performance requirements

One way to boost the export activities of international companies in host countries imposes certain export performance criteria. Internationally, these requirements are addressed in trade-related investment measures, being reluctance to them.

In 1955, the OECD initiated the elaboration of an international agreement on investment that would establish a uniform international legal framework. Although the work on drafting the document was not finalized by signing an agreement, they have outlined certain guidelines that have guided many countries in the liberalization of their own regulations on investment (OECD, 2010).

With regard to performance requirements, the draft agreement predicts that they are illegal, regardless of their content: whether it refers to a certain level of production, export, of a certain amount of goods from domestic production, whether aimed at transferring technology and know-how to the staff of the host country or imposes the engaging in research of a certain number of citizens of the host country.

e) Use incentives

In most countries that have managed to attract and benefit from FDI, incentives have been an integral part of their policy in this regard. Governments have used financial, fiscal or other type of incentives to achieve goals.

The degree to which the use of stimulants affects investors' decisions is questionable. Attention should be shifted towards risk-benefit analysis, so as the level of the incentives not to exceed the benefits reflected upon the society.

In some cases, incentives are used to correct market failures. Compensation can be made for certain deficiencies in specific economic environment of the host country as poor infrastructure or bureaucracy.

The main argument against the use of incentive practices involves the cost thereof. Thus, it is possible for the orientation of these resources to improve infrastructure or workforce education to bring more long term benefits than their use for granting incentives. In time, the use of incentives to promote FDI was realized in various forms. In general, developed countries have used financial practices, while developing countries have turned to fiscal incentives (UNCTAD, 2011).

In Singapore, tax exemptions for companies whose production was different from existing local one, were extended on periods from 10 to 20 years. In case of Malaysian companies regarded as innovative and whose production was predominantly export-oriented, total taxes were exempted for a period of at least five years. Foreign investors acting on the Chinese market, benefit from certain tax cuts. Thus, while the overall level of taxes is about 33 %, it can be reduced by 50 % for a period of at least 3 years when international companies make profits from exports.

Some developing countries provide such incentives only for the production of non-traditional goods for export. In this case, the aim is the diversification of industrial activities. In an effort to encourage production for export, the tax authorities have taken a flexible policy that regards the recovery costs of paying taxes. Thus, Malaysia and Singapore have allowed double deduction system for certain types of international travel-related expenses incurred for marketing purposes.

Measures to provide incentives must be implemented in a more general framework, with policies focused on improving internal inputs. Also, the transparency of the process by which these incentives are offered is a prerequisite for reducing associated risks (Hughes, Brewster, 2002). A solution to reduce possible losses arising from non-compliance with certain requirements would be the introduction on certain articles through contractual clauses stipulating the return, under certain conditions, of the incentives received.

2. PROMOTE AND ATTRACT FDI IN ROMANIA

Regarding Romania, we notice that an organized and systematic activity of FDI monitoring and attraction began shortly after the change of regime, in the spring of 1991 with the adoption of Law no. 35/1991 on foreign investment regime and the establishment of "the Romanian Development Agency" (ARD).

A country that wants to compete successfully on the international investment market must ensure itself, as a minimum starting level, an appropriate legal framework. For Romania, the Direct Investment Law in 1991 was the conclusion of the first phase of establishing a specific legislative package designed to facilitate and encourage the penetration of foreign investment capital. The next step in the legislation was the adoption of Law no. 58/1991 (Law on Privatization), which allowed access to private capital (foreign and national) in the public sector represented by autonomous companies and agencies.

In respect of facilities granted to foreign investors, Romania has not situated over the years on a competitive position compared to many Central and Eastern European countries, which was one of the causes of reduced flow of FDI in the decade of the 90 and the early years of the next decade.

After joining the EU, Romania can not grant tax incentives (discounts), being allowed only financial incentives such as free amounts for capital investments ("grants"), granting the necessary land for the investment at a low price and industrial facilities (the necessary infrastructure for the investment project).

The year 2008 marks a new milestone in terms of specific legislative framework by publishing the Emergency Ordinance no. 85/2008 on investment incentive (approved by Law no.78/2009), which does not distinguish between foreign and domestic investment. The New Investment Law (amended by Law no.82/2010) aims to support the economical development of Romania as well as the alignment with EU legislation, including the granting of State aid.

The facilities are subject to the maintenance of the investment for a period of between 5 and 15 years, depending on the value of the investment. The facilities of state aid nature are divided into three categories: provide irredeemable amounts for acquisition of tangible and intangible assets; financial contributions for newly created jobs; provide bonuses of interest in contracting loans.

It also provides structuring investments into three categories, each with specific facilities granted to a defined time horizon, offering investors a choice of the type of facility. Investments targeted are those that contribute to at least one of the following objectives:

- Development and regional cohesion;
- Protection and rehabilitation of the environment;
- Increasing energy efficiency and/or energy production and use of renewable energy resources;
- Speed up the process of research, development and innovation;
- Employment and training of the workforce.

Regarding the institutions involved in attracting and promoting FDI, the first of which - "Romanian Development Agency" (ARD) was established in March 1991 as a specialized government body with the mission to support the process of economic reform, identifying, directing and implementing measures aimed at attracting foreign capital.

Subsequently, this work was taken over by "Romanian Agency for Foreign Investment" (ARIS), established in 2002, under the Prime Minister. His main course of action was to approach the international business environment to improve the perception of the foreign investors on Romania's image and investment opportunities. Another activity of ARIS has been the one in the National Contact Point (established as a result of accession to "the OECD Declaration on International Investment and Multinational Enterprises", in April 2005), responsible for compliance "OECD Guidelines for Multinational Enterprises" and ensuring its dissemination for the business community and other stakeholders.

In late 2009, "Romanian Agency for Foreign Investment" has undergone a reorganization process, resulted in the fusion with "Romanian Center for Trade", following which was established "The Romanian Center for Trade and Investment" (CRPCIS). Subordinated to the Ministry of Economy, Trade and Business Environment, the new institution is in charge of promoting trade internationally, regionally and nationally, attracting foreign investment in the national economy as well as promoting domestic investment climate. The mission and objectives of former ARIS have been taken over by "Directorate for Foreign Investment" (DIS) established within the Centre[*].

In the international competition to attract foreign investment the position of Romania, still unfavorable compared to its main competitors - the Central and Eastern European countries - is explained not so much by lack of competitive advantage, but rather by the fact that our country's advantages are frequently canceled because of a number of structural disadvantages. Romania should be aware of its strengths, which have to be capitalized, but also of discouraging factors which still bear away many investments and constitute a warning signal.

Among **the advantages** for which foreign investors consider Romania as a possible destination for their business development we can include:

- The size of the internal market - one of the largest markets in Central and Eastern Europe with major potential in the medium and long term;
- The geographical position - location at the crossroads between East and Western offers easy access to the countries of the Balkans, and also to the Middle East, North Africa, the rest of Europe by the opening represented by the Black Sea and the Danube;
- Human Resources - large workforce, relatively cheap and highly skilled (especially in technology, IT and engineering), characterized by adaptability to the changing professional environment and able to work intensively if appropriate incentives are offered, together with an appropriate and investment management oriented towards training programs can lead to increased productivity;
- Natural resources - potential exploitation of natural resources (agricultural land, oil, natural gas, etc.), significant tourism potential;
- Leverage - as a member of the European Union, facilitating access to the European Single Market as an export market;
- Political advantages - democratic regime based on multiparty system, membership of NATO;

[*] See www.arisinvest.ro/Profile/ Mission and Objectives

- Foreign Relations – member of ONU and other international organizations (OSCE, Council of Europe, WTO, etc.);
- Improving infrastructure - a mobile network well developed, industrial infrastructure extended (including oil and petrochemicals), the presence of leading international banks, developed railway infrastructure, extensive facilities of river-borne and maritime transport;
- Legislative advantages - harmonization with European legislation, competitive fiscal policy (flat tax of 16%).

Beyond these advantages and clear progress towards democracy, there are a number of elements which remain inhibit attracting FDI. Among the factors that **discourage** investment include:

- Foreign perception unfavorable of the domestic business climate;
- Problems of the legal framework - lack or late appearance of basic regulations for the functioning of a market economy (e.g.: regulations on competition, industrial and intellectual property, dispute resolution);
- Instability and unpredictability of laws - frequent changes in laws, including tax policy, without a medium and long term strategy;
- Administrative bureaucracy - difficult procedures of doing business;
- Operating conditions in the local market - related both to the socio-cultural level (e.g.: attitude towards foreigners, corruption) and also the purely economic (e.g.: lack of adequate infrastructure).

Any investment policy has economic and political determinations which translated into subjective - objective report, show us that there are measures that a government should implement and measures that the government wants to take, taking into account, all the time, its strategic objectives, internal and external economic and political constraints, the current situation and long-term prognosis of global opportunities and risks.

On the global investment market, the existence of a favorable legislative framework has proven a prerequisite for attracting foreign investment, but competitive battle tends to move more and more from the field of legal conditions for access and market operating within the basic economic conditions (internal market dimension, production costs, availability of natural resources, etc.).

From this perspective, the principle according to which there is no need for a special law on foreign investment seems justified. Investors are interested, first of all of the profit and the facilities, and will come as long as the Romanian business environment gives them the opportunity to achieve gains. This is why the quality of the business environment is very important and Romania's priorities should be channelled in order to improve it.

Romania has experienced sustained economic development, especially in the last decade, there has been progress on structural reforms, especially in privatization, banking reform and restructuring firms in opening major markets such as the energy and infrastructure markets.

However, there remain a number of problems that need solving in order to attract more consistent and varied foreign investment. Romania must redouble their efforts to ensure a more transparent regulatory system and more stable, improve law enforcement, to accelerate public administration reform, fight against corruption more efficiently. Also, as the privatization of large enterprises comes to an end, the priority becomes attracting new foreign investment (of "greenfield" type). For that purpose should be supported efforts, whose success depend on Romania's ability to improve the investment climate and provide competitive workforce and better prepared in the exacting rules imposed by the free market.

CONCLUSIONS

Given the lack of domestic capital, coupled with the existence of substantial capital availability in developed countries, foreign investment solution in the ex-communist countries becomes not only necessary, but absolutely indispensable for national economies. Given the principle of market economy, the demand for such investments being very big and the offer well controlled, the price of foreign investment can only be bigger and harder to bear. Its success in terms of national interests of states in transition depends largely on the strategic orientation of these factors correlated and compatibility with internal factors and internal storage capacity of domestic capital.

For transition strategies an essential component becomes attracting and proper orientating of new private investment to major goals: economic recovery, creating a market economy and ensure its proper functionality, creating real conditions for attraction of foreign investments in strengthening capital accumulation local, stimulating the creation of new private enterprises, especially in the production of necessary goods for the market already outlined, foreign and domestic, as well as maintaining full control over the medium and long term evolution of the national economy in order to ensure economic and political independence, elements that will be a long time, essential elements of socio-economic existence of peoples.

Regarding FDI attraction and promotion, it should be pointed out that mere execution of a plan, no matter how complex, is a necessary condition, but not sufficient to attract foreign investment. Implementation of policies is not possible without the existence of economic assumptions (generally

represented by inputs which have a determined nature and objective), plus a number of legal and institutional premises.

Therefore, the policy of attracting foreign direct investment has to be pro active, generating investment, the business investment initiative must start, not only by offering investment opportunities but also by encouraging and maintaining a friendly and profit generator business climate.

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