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The role of tender offer in FDI selection. Study case: Romania

Sebastian ENE
"Constantin Brâncoveanu" University, Pitesti
george_sene@yahoo.com

Abstract. *The present paper creates a tender model specific to FDI. We consider to be necessary to have such a tender since the effects of foreign investments in the national economy are multiple from an economic and social point of view so that it becomes necessary to emphasize a balance of the positive and negative effects. On the other hand, we also suggest two new indicators, the multiplier of foreign direct investments and the accelerator of foreign direct investments that show the way in which this type of investment spreads in the national economy.*

Keywords: foreign direct investments (FDI); balance of the effects produced; transnational corporations (TNC); host country; determinants.

JEL Codes: F23, G32.
REL Codes: 16B, 18F.

1. Introduction

Foreign direct investments have permanently generated questions both from a theoretical and from a practical point of view. Economists, politicians, environmental specialists, trade unions must respond to a number of issues raised by the economic, social, environmental and political implications that impose this form of investment and financing as well. The peculiarities of this kind of investment, the issue of relocation, the social implications, the impact on the national economy, the profit repatriation are questions to which answers must be found. In the current period, marked by strong turbulence on the financial markets, by the problem of the public debt in countries such as the USA, Greece, Italy, Spain, Portugal, Ireland, by the problems of globalization, a new question with multiple implications is added, namely the problem generated by direct foreign investments made in various forms both in the developed countries but especially in the countries with developing economies (emerging countries). The challenge of these investments is closely related to the overall effects generated on the national economies by the capital relocation or simply by the support of the parent company (country of origin) through different means: profit repatriation, branch decapitalization. Romania is not far from this complicated and unfriendly context. In this context we raise the following questions related to the FDI:

- foreign direct investments must take place freely in Romania (explicitly: investments in all fields regardless of implications) without any special regulations or without counting the positive and the negative effects generated by these investments.
- or, in the development of the FDI, to undertake their selection and channeling to specific areas of interest for our country.

The opinions might be pros and cons: opinions that argue the lower value of FDI in Romania and therefore unable to restrict this type of investment, and opinions to which I also adhere, namely that these investments should be attracted and channeled to areas of interest. If we only regard the disputes arising from Roşia Montană project we realize that we need to carefully approach the issues raised by FDI. Consequently, adhering to this idea, our intervention is trying to arouse interest which would call for tenders for FDI and the implications it generates on the national economy.

2. Fundamental theories and concepts of FDI

In time several theories on FDI have emerged. They differ according to the mainstream (American, Anglo-Saxon, and Canadian) and the approach of different authors. In our opinion, a critical analysis of these currents highlights six fundamental theories – representative for FDI. They explain the fundamental concepts of FDI. We have highlighted the views of some prestigious specialists in this field, the most diverse opinions on these types of investments. Analyzing the various theories, from the oldest to the newest, and from the production cycle theory (Vernon, 1966) to the competitive advantage (Porter, 1979, 1980, 1985), the theory of recovery market imperfections (Hymer, 1976), the oligopoly theory (Buckley, Casson, 1976) to the eclectic theory (Dunning, 2008), all explained the way in which FDI are regarded mainly by the multinational companies that make them. Therefore, we have analyzed the determinants of FDI without putting any special emphasis on the economic, social and environmental effects felt by the host country.

The determinants of FDI are all for and against reasons that TNC take into consideration when implementing such investments.

The critical analysis of these determinants (Lall, 1997) highlights the deep concerns of TNC when implementing an investment in a country other than the country of origin (Appendix 1). There is a concern on three levels: economic, political and strategic. Each of them responds to multiple questions designed to cover the high risks generated by the investments. There are analyzed the fundamental aspects referring to market characteristics, resources and competitiveness if we refer to the economic conditions, the governmental policies that may affect the macroeconomic situation of a country as well as the capital policies. In terms of strategies of TNCs, they discuss the issues related to risk regardless of their level and origin, location strategies, resource strategies, integration and transfer.

The problems arising from FDI in the host country are not pursued with the same interest by the specialists in the field. The quantification of positive or negative effects on the national economies, environment, and social climate are briefly discussed or in some cases they are not discussed at all. Under these circumstances the question that arises is whether the governments of the host country should develop a series of matrices to measure and highlight the positive and the negative balance of FDI in different situations (optimistic and pessimistic scenarios). This should be done especially in the context of crises because they produce effects to which we add the effects generated by the problems of the multinationals in the host countries that could multiply the overall negative effect produced on the national economy.

3. The role of FDI in economic development

The relationship between investments and economic development (economic growth) is well known. It was developed by numerous economists including Keynes (1936) and Robert Solow (1956). If in the Keynesian model we consider the global income (V) as an indicator of economic development $\Delta V = \Delta C - \Delta I$, it would result that an increase in investments implicitly leads to higher consumption and income. The investment multiplier enables deeper knowledge of the effects generated by investments on income: $K = \Delta V/\Delta I$, due to the fact that it presents the revenue increase when investments are modified by one unit. But, regarding investments (I) we meet both domestic investments and foreign investments. In this situation it is required to breakdown investments according to their categories, domestic investment and foreign investment ($I = Ia + Is$), where Ia represents domestic investment and Is represent foreign investment. The investment multiplier could be written in these conditions as follows: $K = \Delta V/(\Delta Ia + \Delta Is)$. Extrapolating, we can write ΔV based on the revenues generated by domestic investments (Va) and the revenue generated by foreign investments (Vi) so $V = Va + Vi$. Under these conditions $K = (\Delta Va + \Delta Vs)/(\Delta Ia + + \Delta Is)$, and K may be written according to the domestic investment multiplier (Ka) and the foreign investment multiplier (Ks); $K = Ka + Ks$, where $Ka = \Delta Va/\Delta ia + \Delta Is$, and $Ks = \Delta Vs/(\Delta Ia + \Delta Is)$.

At the same time, in terms of economic growth, which also means an increase in revenue, there is an increase in investments. Under these conditions, the investment accelerator is one that highlights the growth of investment in revenue growth conditions. According to Keynes, $A = \Delta I/\Delta V$; doing similar as in the previous relationships, we can express the investment accelerator in fragments according to the domestic investment accelerator (Aa) and the foreign investment accelerator (As). Thus $A = Aa + As$, where: $Aa = \Delta Ia/(\Delta Va + \Delta Vs)$ and $As = \Delta Is/(\Delta Va + \Delta Vs)$.

In conclusion, we can say that specific to FDI we can calculate two new indicators to help identify the FDI participation in the economic development (growth) of a country: the multiplier of foreign direct investments (Ks) and the accelerator of foreign direct investment (As).

Another famous model which reflects economic growth is Robert Solow's model (1956). Later on, further economists have developed this model, an important contribution in this respect being that of Charles Jones (2002). Basically, Solow's model is built based on two equations that show the production and capital accumulation. The production function is the Cobb-Douglass type: $Y = F (K, L)$, so $Y = AK^{\alpha}L^{1-\alpha}$ where Y is the global production, A is the technological contribution, K – capital money (can be regarded as money investment in achieving production), L – force labor (human resources used to achieve production). The second specific equation developed by Solow is that of capital accumulation: K = sY-dK, where sY is the gross investment and DK is the depreciation of capital.

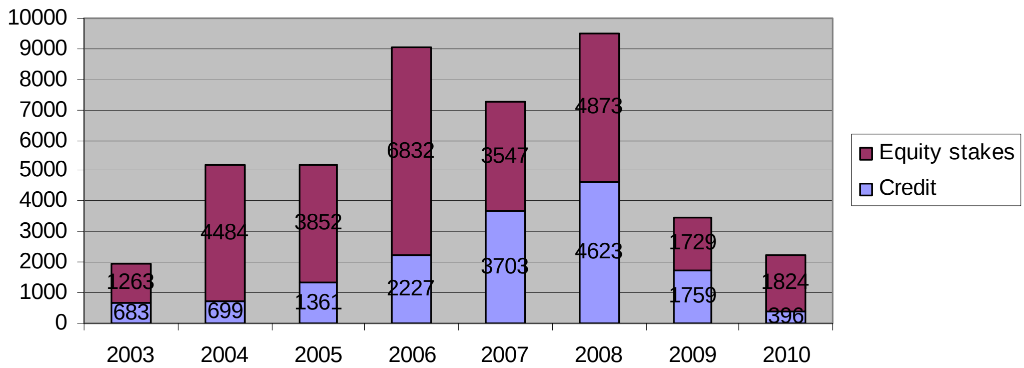
Just like in the case of the Keynesian model, we can try to split production and capital accumulation according to the production and exogenous capital (FDI) as well as production and endogenous capital. In this respect we can emphasize the participation of foreign capital in the model of economic growth.

Thus Y = Ya + Ys = F (Kas, L) where Ya represents the production achieved domestically and Ys is the production made by foreign owned companies in the country. Capital accumulation would become K = Ka + Ks = = s (Ya + Ys) - d (Ka + Ks), where Ka is the domestic capital, Ks is the foreign capital, sYa – the gross domestic investment, sYs – the gross foreign investment, DKA – depreciation of domestic capital, DKS – depreciation of foreign capital.

The two models that emphasize the participation of investments and implicitly the economic growth through the indicators they propose to FDI, enabling quantitative assessment of the produced effects.

4. FDI in Romania

In Romania, foreign direct investments followed a descending path due to the economic and financial crisis. The data provided by the National Bank of Romania (BNR Report in 2010 on FDI) are eloquent in this respect.

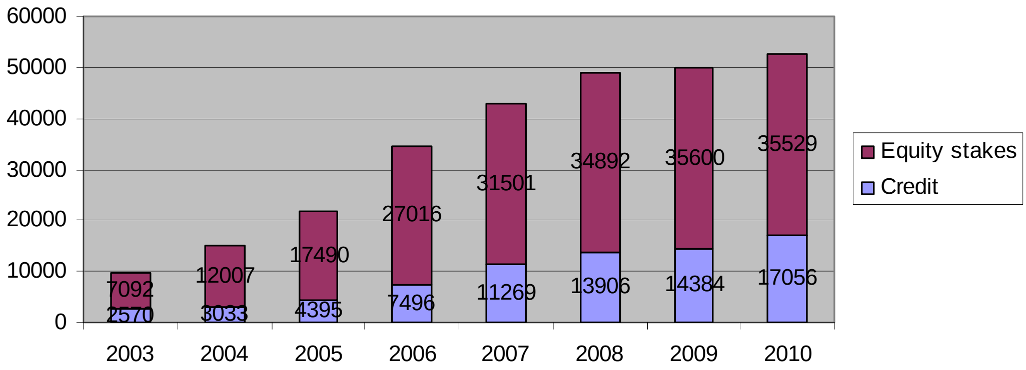


Source: BNR Report 2011.

Figure 1. *FDI flows in Romania 2003-2010 (mil. euro)*

One can observe a drastic reduction in FDI in 2010 compared with 2009 from 3,488 million euros in 2009 to 2,220 million in 2010 (minus 36.35%). This decrease is due, on one hand, to the global financial crisis and, on the other hand, to a sharp decline in the attractiveness which Romania presents to the foreign investors. Out of the total net inflows of foreign direct investment of 2,220 million, 1,824 million represented the net equity of foreign investors (82.16% of total net flows of FDI), while the amount of 396 million euros was the received net credit (17.84% of total net flows of FDI).

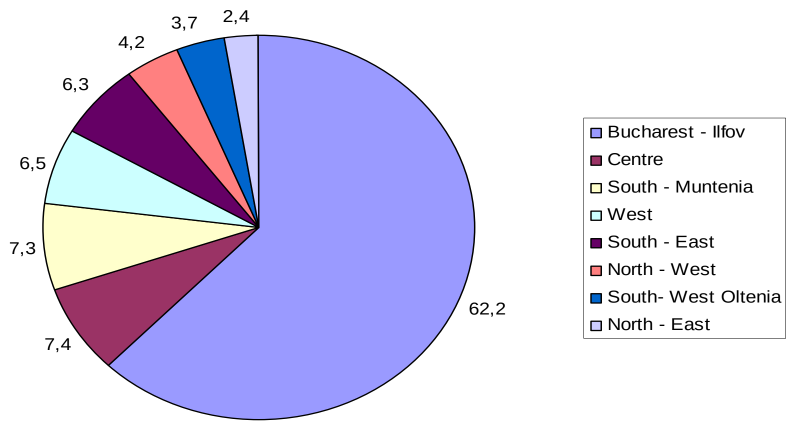
Regarding the final balance of FDI, this was of 52,585 million euros at the end of 2010, 5.2% higher than at the end of 2009. The economic sectors to which foreign investors have turned their attention to are: industry (43.9%), followed by financial intermediation and insurance (19.1%), retail and wholesale (12.4%), construction and real estate (9%), information technology (5.9%), others (9.7%, including agriculture, with 2%).



Source: BNR Report 2011.

Figure 2. *FDI stocks in Romania 2003-2012 (mil. euro)*

The regions that have attracted FDI show a clear dominance of Bucharest – Ilfov area, which attracted 62.2% of total FDI. At a great distance, we observe the Central Region with 7.4%, South-Muntenia with 7.3%, 6.5% for the West Region, 6.3% for the South-East region, 4.2% for the North-West, and the South-West and North-East with 3.2% and 2.4%.



Source: BNR Report 2011.

Figure 3. *FDI stocks by development region (%) – 31 december 2010*

The Netherlands stands out among those foreign investors that invested in Romania more than 10 billion euros at the end of 2010, which represents 20.7% of total FDI, followed by Austria with 17.8%, and Germany with 12.2%. It should be emphasized that the US accounts for only 2.6% and only 1.2% for the UK.

Table 1

Top 10 investors in romanian economy in 2010

Countries	Total – mil. euro	
	Value	%
The Netherlands	10,903	20.7
Austria	9,346	17.8
Germany	6,398	12.2
France	4,384	8.3
Greece	3,016	5.7
Italy	2,808	5.3
Ciprus	2,550	4.9
Switzerland	2,021	3.8
The usa	1,349	2.6
Spain	1,064	2.0
Others	8,746	16.6
Total	52,585	100

Regarding the net revenues obtained by foreign investors in 2010, they were worth 491 million euros, registering a decrease with 203 as compared to the previous year.

5. Tender offer on FDI

In this context we can say that we have an overview of FDI in Romania, of the defining theories, determinants and specific motivations of TNC, but not clearly known effect on national economic, environmental and social impact created by them. If for motivation and determinants we can precisely express what TNC considers when making a decision to invest in a particular country or area, if the defining theories on FDI clearly express their options and strategies: new markets, competitive advantage, access to resources, expansion, etc., the measurable effects for the host country are less known. Within the current national and international context, it is necessary to highlight this impact at the economic level. It also requires a strategy aimed at creating a balance of the effects produced on the national economy (positive and negative effects) to guide the country's investment policy. The tender offer on FDI can have a positive effect on the level of economic and social development of a country.

When we talk about Romania and not only, the tender offer should constitute an argument for the government policies of macroeconomic development. The reasons underlying this statement are multiple and considered fully justified. These may include:

- FDI and TNC seeking resources, especially non-renewable resources that their countries of origin are either out of them or are well protected by the authorities. Romania knows the alienation phenomenon of energy resources (especially oil extraction and oil production) not quite in very advantageous terms. If for the foreign companies it was a good business deal, for our country things were not exactly the same;
- FDI and TNC seek only the areas of interest to them and they do not intend to develop further areas of interest for the host country, which could lead to mutual gain. A summary of the statistical data outlines some non-welcome aspects regarding the interest area of FDI in Romania. It appears that important sectors such as agriculture, tourism, manufacturing and high technology incorporating skilled labor are avoided, these investments being made in branches which the Romanian state through proper management could have effectively developed;
- Another argument is that some companies have not been successfully privatized and the foreign partners did not respect the contractual terms. An illustrative case is ARO Câmpulung;
- The Romanian legislation is elusive, perfectible in terms of FDI (OUG no. 92/1997 on stimulating direct investment, amended and approved by Law no. 241/1998);

- The lack of priority development areas for which the state initiate a series of legislative packages that would stimulate investment in those sectors (e.g. non-taxing the profit reinvested in those areas, differentiated tax rates on income taxation, differentiated taxation of labour force for those companies that invest in the sectors of interest or in the disadvantaged areas);
- The exports of raw materials or semi-finished products. It is well known that Romania used to be an important producer and exporter of furniture, and now it is a large exporter of timber;
- The high degree of vulnerability of the Romanian banking sector dominated by foreign owned banks (e.g. 26% share held by the banks with Greek capital).

These are just some of the arguments underlying the proposal of achieving a system of tenders for FDI. The procedure or the methodology to achieve such a tender offer would involve first of all going through several important stages.

1. Identifying the areas of interest for Romania to attract such investments. These areas should be road infrastructure, tourism of all kinds, agriculture, high technology, recycling, renewable energy;

2. Developing a national strategy to focus on the development of these sectors that could decisively contribute to the human development index and hence to economic development;

3. Elaborating a set of measures to fiscally stimulate investments, including foreign investment in priority areas;

4. Promoting Romania's economic interests abroad by organizing meetings, fairs and exhibitions in countries with potential (e.g. China);

5. Elaborating econometric models to simulate some possible scenarios regarding the effects produced by crises on foreign capital in the country, study the behavior of critical TNC, the elaborating the balance of FDI effects;

6. Regulating of public-private partnership in such situations (FDI). Example: making road access by public authorities for a factory made through FDI.

Starting from these premises, we outline the idea of an application which provides a structure that includes the issues of interest to the host country, in this case Romania. The tender offer must include standard elements, and in some cases, elements to customize it.

In terms of standard elements, they include:

1. The field/sector/branch for which they make the tender. Romania should solicit to invest in the sectors of interest or in the areas with potential

that the domestic capital cannot develop (e.g. road infrastructure, tourism, agriculture, high technology, recycling);

2. The technical details of the tender. They must obligatorily include information regarding the technologies used, the level of pollution, the technical parameters to achieve the construction, installations, etc., the operating parameters, the domestic consumption of domestic natural resources, the energy resources;

3. The financial details of the tender. The value of the investment, the type of depreciation used, the profitability, the dividend policy, the repatriation of profits, credit and employment of domestic and foreign capital;

4. The impact analysis:
- The economic impact – calculations regarding the development of the area following the investment, the contribution to the growth of the GDP, increasing exports;
- The environmental impact – the impact analysis on the environment, environmental protection measures, pollution reduction, waste policy;
- The social impact – the impact on the working population, level of training, reducing unemployment;

5. TNC's own vision on the development of each field/sector/branch;

6. The cost/benefit analysis means to make calculations of efficiency, to balance the effects produced in each branch, economy, environment and social level;

7. TNC's behavior in crisis situations, respectively explaining the TNC policy in case the economic, financial, political variables are modified from the initial situation, the TNC's reaction when the parent company suffers losses, the issue of capital relocation;

8. The deadlines aim the necessary time to produce the intended effects. Example: the operation of facilities, the achieved employment, production for export;

9. The guarantees refer to the financial guarantees offered by TNC to achieve objectives, financial solvency, contract fulfillment;

10. Special clauses.

The analysis of the tender offers also implies, in addition to the specific elements for such situations, creating some balance effects produced on the national economy. Various models are quantified by various economic, social and environmental effects related to FDI. Such a model is the model called ESP (Environmental/Systems/Policy) developed by K. Koopman and J.M. Montias in 1971, which weighs the various components and variables that contribute to the mix needed to attract FDI as well as the effects they produce, the property model wealth – accumulation – restructuring (Pavitt, 1987, Cantwell, 1989) which highlights the consequences produced by FDI, the growth stages model (Rostow, 1959, 1979, Chenery, Balassa, 1980) that makes the link between the TNC activity and the development of a country and as well as the effects of restructuring.

6. Conclusions

FDI represents for any country a factor of growth and development under the conditions that they aim at the mutual benefit (both for the multinational company and for the host country). If for transnational corporations, the determinants and the motivations are well-known, the effects on the host country, especially in conditions of crisis are less explored. The current crisis and the generated effects impose in each national economy the calculation of some specific indicators such as the FDI multiplier and the FDI accelerator to analyze how these investments evolve under certain conditions (the effect on the total income or the growth effect of the total income on investments.). However, due to the turbulence produced by multinationals, in particular the financial ones at global level, it is necessary to create a balance of the effects produced by FDI based on various scenarios. For Romania, the tender may contribute decisively to the balanced development of the sectors of national economy, FDI being channeled through this form to the sectors of interest.

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Annex 1

Host country determinants of FDI

Economic conditions	Markets	Size, income levels, urbanization, stability and growth prospects, access to regional markets, distribution and demand patterns.
	Resources	Natural resources, location
	Competitiveness	Labour availability , costs, skills, trainability, managerial technical skills, access to inputs, physical infrastructure, supplier base, technology support.
Houst country policies	Macro policies	Management of crucial macro variables, ease of remittance, access to foreign exchange.
	Private sector	Promotion of private ownership, clear and stable policies, easy entry/exit policies, efficient financial markets, other support
	Trade and industry	Trade strategy, regional integration and access to markets, ownership controls, competition policies, support for SMEs
	Fdi policies	Easy of entry, ownership,incentives, access to inputs, transparent and stable policies.
MNE strategies	Risk perception	Perceptions of country risk, based on political factors, macro management, labour markets, policy stability.
	Location, sourcing, integration transfer	Company strategies on location, sourcing of products/inputs, integration of affiliates , strategic alliance, traning, technology.

Source: Lall S., *Attracting Foreign Investment: New Trends, Sources and Policies*, Economic Paper 31 Commonwealth Secretariat, 1997.