THESIS SUMMARY
FOREIGN DIRECT INVESTMENT AND THEIR IMPACT ON EMERGING ECONOMIES

In the doctoral thesis entitled "Foreign direct investments and their impact on emerging economies" we analysed the developments and implications of foreign direct investments in emerging economies, addressing a modern issue in the current economic climate.

Under globalization and the current global financial crisis, the issue of foreign direct investments and their impact on emerging economies, continues to be a modern topic for economic research and practice. Because of the benefits and the impact that foreign direct investments have on the economies of the host countries, the evolution of foreign direct investments flows on a global scale, is an interesting topic for both host countries and foreign investors.

The purpose of the thesis entitled “Foreign direct investments and their impact on emerging economies " is to analyse the evolution and impact of foreign direct investment upon twenty-four emerging economies for a period of twenty-three years, between 1990 and 2012.

In order to achieve the research approach we used documentary sources, articles published in journals, relevant books in the research area, both domestic and foreign literature, documents and reports issued by various public entities or authorities, as well as their databases.

The research methodology used in the thesis is based on both qualitative and quantitative analysis. The research includes a thorough documentation, outlining the behaviour and evolution of foreign direct investment flows, but also a quantitative analysis regarding the impact of these flows upon economic growth in host countries.

The paper is structured in six chapters, which highlight the behaviour and importance of foreign direct investments inflows in emerging economies and their impact on host countries.

Chapter one, entitled: Foreign direct investments: concept, categories and motivations, defines theoretical concepts of foreign direct investments. The objective of this chapter of the thesis is to define the concept of foreign direct investments and to identify certain characteristics and features that they contain. With this objective, the chapter examines aspects regarding the theories of foreign investment, categories and motivations.

In the light of the definitions provided by specific literature and various international organizations, foreign direct investment is the relationship between a resident entity and a non-resident entity, usually involving a long-term investment relationship, where the investor has significant influence on the investee company. Regulations of each country define foreign direct investment, especially the term of significant influence or control.

In this chapter of the thesis, we analysed the theories developed by researchers on foreign direct investments, in accordance with the extension of these flows on a global scale. Foreign direct investments theories seem rather an explanation of the development of the production process and most often involve a perfectly secure environment with no impediments regarding the consumption markets.

In our opinion, in the context of the global financial crisis started in 2008, one of the problems that foreign direct investors are facing is related to the compression of worldwide consumption. We can appreciate therefore that most theories developed in connection with foreign direct investments are no longer valid. The circumstances of the world economy, the foreign direct investments flows in the twenty-first century require the development of new theories regarding foreign direct investments.

Chapter two aims to analyze the strategies and policies applied by foreign direct investors and host countries. Foreign direct investors apply expansion policies and strategies, to penetrate new markets and host countries apply strategies and policies to attract foreign investors. The analysis of strategies and policies implemented by the host countries and the foreign direct investors, contributes to a better understanding of the phenomenon.

Foreign direct investments strategies reflect the direction that a country intends to achieve over a period of time, to ensure economic and social development. Foreign direct investments strategies are divided into government strategies and corporate strategies. Government strategies on foreign direct investments may be further classified into strategies of capital exporting countries and strategies of host countries.

Foreign direct investments policies are different from foreign direct investments strategies, based on an inter- relationship. Foreign direct investments policies include measures and actions to achieve the strategies proposed by the host country in attracting foreign direct investments.

The thesis emphasized that, over the last decade, all countries, especially emerging economies have made substantial progress in the implementation of policies on foreign direct investments in order to create a more favourable climate and to attract a larger amount of foreign direct investments.

The *third chapter* aims to analyze the evolution and impact of foreign direct investments inflows on emerging economies. Based on the professional literature, the international organizations (World Bank and IMF) and rating agencies - Standard & Poor's (S &P), FTSE International Limited (FTSE), Morgan Stanley Capital International (MSCI) and Dow Jones, we identified a number of twenty-four emerging economies, namely South Africa, Argentina, Brazil, Bulgaria, Chile, China, Colombia, United Arab Emirates, Egypt, Philippines, India, Indonesia, Malaysia, Morocco, Mexico, Pakistan, Peru, Poland, Czech Republic, Romania, Russia, Thailand, Turkey and Hungary.

After analysing the evolution of foreign direct investments inflows in the twenty-four emerging economies, we observed a low level of foreign direct investments inflows over the period 1990-2000. After 2000, there is an increase in foreign direct investments inflows in emerging economies, largely due to the intensification of these flows on a global scale.

Based on the research of foreign direct investments inflows in emerging economies for a period of twenty-three years, over the period 1990 - 2012, we noted that the recession periods and economic crisis influence the behaviour of the foreign direct investor, resulting in a decrease in foreign direct investments inflows.

All twenty-four economies have registered a decline in foreign direct investments flows in 2009 caused by the global financial crisis, largely due to the contraction of foreign direct investment flows worldwide. Year 2010 brings for Argentina, Brazil, Chile, China, United Arab Emirates, Indonesia, Malaysia, Mexico, Peru, Poland, Czech Republic, Russia, Thailand, Turkey and Hungary an increase of foreign direct investments inflows compared to 2009.

Brazil, Russia, India and China have attracted the largest foreign direct investments, far exceeding the rest of the emerging economies, but there were moments in which countries such as Mexico, Argentina and Poland have exceeded some of the BRICS (Brazil, Russia, India, China and South Africa).

Bulgaria, Pakistan, Morocco and Romania, are economies which compared to the rest of the emerging economies have attracted a low volume of foreign direct investments. A common feature of these countries is the high level of corruption.

We can affirm therefore that corruption and weak regulations scare investors.

Regarding the value of direct foreign investments in emerging economies, the indicator registered low values until 2000, but compared to foreign direct investments inflows, no decline has been observed.

The thesis emphasized that foreign direct investments have upon emerging economies, both positive and negative effects. Among the positive effects we mentioned: sustaining economic growth, more effective use of natural resources, improved use of labour force, promoting technical progress in emerging economies, increased revenues for the state budget, reducing current account deficit and improving the economic efficiency of entities as a result of privatization process.

Based on an empirical study using Hausman test, the panel model with fixed effects and the panel model with random effects, we concluded that the stock of foreign direct investments has a positive impact on gross domestic product in the twenty-four emerging economies, namely South Africa, Argentina, Brazil, Bulgaria, Chile, China, Colombia, United Arab Emirates, Egypt, Philippines, India, Indonesia, Malaysia, Morocco, Mexico, Pakistan, Peru, Poland, Czech Republic, Romania, Russia, Thailand, Turkey and Hungary.

Further on our research approach, we compared the evolution of foreign direct investments inflows in emerging and developed economies. Based on our analysis, we noted that throughout the whole analyzed period, foreign direct investments inflows were mainly directed to developed economies. Increasing flows of foreign direct investments worldwide and their mainly direction to developed economies causes the difference between inflows of foreign direct investments in emerging economies and in developed economies to be significant.

Inflows of foreign direct investments in emerging and developed economies were affected by the Asian financial crisis beginning with 1998 and the global financial crisis from 2008. These crises caused a greater decrease in foreign direct investments inflows in developed economies. We noticed that in 2008, due to the global economic crisis, the decline was very severe for developed countries and almost insignificant for the emerging ones.

The year 2012 meant for developed economies new declines of foreign direct investments inflows, while foreign direct investment inflows in emerging economies continued to grow. foreign direct investments inflows in developed economies were only two times bigger than foreign direct investments inflows in emerging economies. This trend reflects that the world order is changing, while foreign direct investments have a major role under these circumstances.

Another objective of the thesis, presented in *chapter four*, refers to the analysis of the evolution and impact of foreign direct investments inflows in the largest emerging economies, known as BRICS acronym, namely Brazil, Russia, India, China and South Africa. Based on our research, we emphasized that economies of countries such Brazil, Russia, India, China and South Africa have attracted the largest volume of foreign direct investments inflows within the twenty-four emerging economies throughout the period.

Starting from large values of foreign direct investments inflows in the economies of Brazil, Russia, India, China and South Africa, we tested through empirical studies based on descriptive and inferential statistics, the existence of a correlation between gross domestic product and foreign direct investments inflows.

Based on quantitative analysis of the impact of foreign direct investments inflows upon gross domestic product in the economies of Brazil, Russia, India, China and South Africa, using the Hausman test, the results reflected the positive impact which the foreign direct investment inflows had upon economic growth.

According to the results obtained through econometric calculations for the estimated coefficients in case of the five emerging economies, all values are positive, indicating a positive impact of foreign direct investments inflows on the host country.

Analyzing the materiality for the twenty-four emerging economies, we observed that Brazil, India, China and South Africa have recorded high materiality values. According to the results obtained for the estimated coefficients, India has the highest value, with a strong positive impact of foreign direct investments inflows in comparison with other economies of the BRICS Group.

In the current global economic environment, the host country regulations, the protection and guarantees offered to foreign investors have an important role in attracting foreign direct investments. *Chapter five* of the thesis aims to analyze the evolution of the regulations related to foreign direct investment in Romania, assessing the importance of national and international authorities in this area.

Emerging economies constitute a very suitable model for studying the impact which the improvement of institutional and regulations' quality has upon economic development in general and, upon foreign capital inflows in particular. Changing the economic system in the former socialist countries included a significant legislation change, which allows researchers to test on econometric basis the importance of institutions for various areas of economic life.

The analysis performed in this thesis, regarding the evolution of legislation on foreign investments in Romania, has revealed an improvement, currently offering guarantees and tax incentives for foreign investors, as most economies in the world.

The establishment of the Romanian Agency for Foreign Investments was a positive signal for the international business environment regarding the clear and firm commitment of the Romanian Government to implement the objectives set out in the policy of attracting foreign investments in Romania, to create a friendly business environment, opened for foreign investments and leading to improvement of our country's economic strength.

In 2008, Law 329/2009 regarding the reorganization of public authorities and institutions, abolished the Romanian Agency for Foreign Investments. In our opinion, the abolition of the Romanian Agency for Foreign Investments was not a proper decision. During its activity, the Romanian Agency for Foreign Investments has promoted foreign direct investments by participating in hundreds of national and international events. It also provided assistance, both in the fundamental and in the implementation phases, for foreign investors by working closely with central and local authorities directly involved.

Romanian Centre for Promoting Trade and Foreign Investments replaced the Romanian Agency for Foreign Investments after the restructuring activities performed by the Romanian Government to streamline public expenditures. The operations carried out by the Romanian Centre for Promoting Trade and Foreign Investments in terms of attracting foreign investors in Romania, will determine whether this measure generates advantages or disadvantages.

Multilateral Investment Guarantee Agency has as objective the promotion of foreign direct investments in emerging economies and developing countries, in order to encourage economic growth, reduce poverty and improve quality of life. Currently, the Multilateral Investment Guarantee Agency has 179 State Members. Of these 179 countries, 154 are developing economies and 25 are advanced economies.

Romania is part of the Multilateral Investment Guarantee Agency since 1992, as a result of the Seoul Convention ratification through Law 43/1992 regarding the ratification of the Convention for Establishing the Multilateral Investment Guarantee Agency, published in the Official Gazette No. 93 of 14.05.1992.

In the current economic context, the Multinational Investment Guarantee Agency (MIGA) has a critical role in developing foreign direct investments flows worldwide, and in the host countries, especially in the emerging economies that are a priority. The growing number of host countries, shows the importance of this international entity for foreign investors.

Based on the research conducted in the thesis, we concluded that investors' safety is an important criterion in attracting them. This requires the adoption of legal provisions in this area and the creation of a legislative framework that is favourable to foreign investments. Many of the countries with emerging economies, being aware of this fact, changed the legislative framework trying to provide guarantees and facilities, and to create a stable and healthy economic environment, to attract foreign direct investments.

The thesis continues the research in *chapter six* with the analysis performed upon the evolution of foreign direct investments in the Romanian economy, through a structural analysis. Foreign direct investments approaches on a structural basis, regards their structure in terms of the capital source, their structure on a territorial basis and their orientation towards different sectors.

Analyzing foreign direct investments inflows over the period 1990 - 2011 in Romania, we found a low level in comparison with other emerging economies. The period 1990 - 1996 was characterized, in the early years, by a legislative and institutional framework in progress, by the inherent difficulties related to economy restructuring activities and the presence of "casual investors" seeking speculative gains from activities performed at a modest scale and carried out on a short time basis.

Comparing the evolution of inflows and foreign direct investments stock, it may be observed the different behaviour of the two indicators. Foreign direct investments inflows fluctuated over the period 1990-2012, being influenced by certain internal and external factors. Foreign direct investments stock had a generally increasing trend, except for the period 2010-2011.

In the current economic context, there is a worldwide restriction of foreign investors' activity. Foreign investors have a more cautious behaviour than in previous periods. Under the circumstances, we believe that more importance should be given to existing investors, in order to at least maintain the current investment stock.

Regarding the evolution of the foreign direct investments stock structure, the analysis concerning the origin countries of foreign investors in Romania pointed out that over 70% of investors are from EU countries. For the period 2003 - 2012, the Netherlands is the host country from which most foreign investors came into Romania, followed by Austria and Germany.

Approaching the structure of foreign direct investments in Romania in terms of territory, one may observe an uneven foreign direct investments distribution. Over 50 % of the foreign direct investments stock in 2012 is located in the Bucharest-Ilfov region. From the regional development perspective, the impact of foreign direct investments inflows is negative, these fuelling the widening disparities between Romanian regions.

The thesis emphasized that the share of foreign direct investments related to manufacturing industry in the existing foreign direct investments stock declined from 50.9 % in 2003 to 31.3 % in 2012. Since 2008, after Romania's accession to the European Union, foreign investors began to show interest in agriculture.

The analysis of existing foreign direct investments in Romania in terms of the main economic sectors proves their orientation especially towards manufacturing industry, as well as electricity, heating energy, water and gas, construction, commerce and insurance sector, and financial brokerage services.

In the analyzed period, foreign direct investments maintained their orientation towards metallurgy branches, petroleum, chemicals, rubber and plastics, industries which are not characterized by strong incorporation of scientific research results and hence by a high added value, but may have a sustainable contribution to economic growth.

The orientation of foreign direct investments in the Romanian economic sectors plays a particularly important role for sustainable economic development. Based on our research, we concluded that foreign direct investments should focus more on sectors that produce added value.

Analyzing gross domestic product and gross domestic product per capita, we discovered the same trends as the inflows and stock of foreign direct investments, meaning they recorded increases and decreases in the same periods, thus confirming the positive effect which the increase in foreign direct investments has upon GDP.

Analyzing the evolution of foreign direct investments and unemployment over the period 1994-2012, we noticed the positive impact that foreign direct investments have upon employment rate in the Romanian economy. Periods of increased foreign direct investments were followed by a decrease in unemployment.

Through the influence they exert on employment in Romania , foreign direct investments have a positive impact on the national budget, thus generating an increase in the budget revenues and implicitly a decrease in expenditures, provided that the persons within the companies that enjoy foreign direct investments rather have an employee status then unemployed one.

In case of the Romanian economy, annual foreign direct investments inflows contributed in some periods, on a large scale for supporting the current account deficit, thus exerting a positive impact on the current account balance. Based on our analysis conducted in the thesis, we revealed that foreign investors have contributed to increasing exports and implicitly reducing the trade deficit.

The impact of foreign direct investments on the Romanian economy, we found that foreign direct investments inflows support economic growth through gross domestic product increase, generate new jobs, harness the resources and technology transfers, and increase state budget with revenues through collected taxes.

To determine whether there is a connection between gross domestic product and foreign direct investments inflows in the Romanian economy, we used quantitative analysis based on Durbin Watson test.

The calculation results show that foreign direct investments inflows had a positive impact on gross domestic product, with a coefficient of 2.299. The positive value of the coefficient highlights the impact of foreign direct investments inflows on GDP, in a sense of stimulating its increase.

Obviously, the importance and effects of foreign direct investments drew the attention of all states and resulted in a fierce competition for foreign capital. The impact of foreign direct investments inflows upon the host country can be traced to both macro and micro level.

The impact of foreign direct investments upon host economies is mostly positive and it occurs differently depending on the area and the region in which the foreign investment is generated. The impact of foreign investments upon host countries largely depends on their quality and quantity.

Foreign direct investments have a positive impact by increasing productivity and competitiveness in the host countries, through technology and capital transfer. Foreign investors introduce in the host country, most times, new activities and technologies, or upgrade the existing ones.

An important contribution of foreign direct investments upon the development of host countries' economy regards the technology transfer, consisting in physical goods or know-how. Foreign direct investments have a positive impact on foreign trade generated from the host country. Foreign direct investments do not lead to a change in trade flows, but to amplified trade relations.

In addition to the direct impact they have on foreign trade, foreign direct investments contribute to the restructuring process of the national economy and local firms, both directly in case of those which are connected to foreign investors, and indirectly, through an increased competition between local firms and foreign affiliates.

Foreign direct investments have a direct impact on generating new jobs and reducing unemployment. Working conditions and offered wages, including newly acquired knowledge by the local employees with the gratitude of foreign investors also have a positive impact upon the economy of the host country.

Also, foreign direct investments have a positive impact upon the state budget by increasing public revenues, on the basis of contributions and taxes paid by foreign direct investors in the host economy.

Based on our research undertaken in this thesis, we revealed that the evolution of foreign direct investments flows is influenced by events taking place in the political and economic arena, on a global and national level, as well as by the foreign partners' confidence in a country development strategy.

Although generally speaking, foreign direct investments have a positive impact on the host country, there may be a negative impact both on the macroeconomic and sector level. The impact of foreign direct investments upon emerging economies seems to be mainly positive due to the multiple benefits, but based on our research we can appreciate that their impact depends on the size of the input and the stock of foreign direct investments in the host country.