THE DUALITY OF FOREIGN DIRECT INVESTMENTS. SUSTAINABLE GROWTH FOR COMPANIES AND COUNTRIES

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Abstract

Current civilization increasingly relies more and more on economic interdependence. In this context, the organizations, be they companies or states, are forced to grow by integrating these interdependencies into their development process. In this process of interdependent integration each participant identifies advantages wishing to exploit their own development process, pursuing a sustainable kind of development by avoiding any risks and identify as many opportunities.

Direct investments in various world economies represent the spearhead for this process of identifying opportunities and reduce risk in a global development process. This process ensures both the safety on medium and long-term development and rapid application for their development plans of both companies and the economies of various countries of the world.

Through this study we identified the main opportunities sought by world states in this process of internationalization of business and globalization of markets. But we also highlighted the limitations of this process and regulation needs of investing processes in order to ensure the sustainability of the process.

The second advantaged component in this process of international expansion and increase of economic interconnection is represented by multinationals enjoying benefits far superior to those of states in the medium-term development. However the limits of investing process force the companies to require certain advantages or guarantees during the progress of investment processes.

Thus, we highlight a duality of foreign direct investment opposing on the one hand the companies interested to secure their international operations and liberalization of markets and states requiring a relatively regulated investment process to avoid dependence on foreign capital.

Keywords: *states, companies, objectives, foreign investments, sustainable growth*

Classification JEL: *A2, D4, D7, M*

1. Introduction

The main decision that is going to be adopted by a manager refers to the choice between the internal efficiency or economic growth. [20] Management objectives, in this case, are to alternate efficient periods of economic growth (the periods of expansion) with periods of growth of efficiency. Management principles do not allow the existence at the same time of several strategic purposes, in order not to decrease the importance of strategies. [11]

The methods of increasing the value of a business [3] are:

- Extensive methods, which involve the increasing the value of an enterprise through the investment policy. The volume of assets held by an enterprise is bigger than the potential increase of value is higher, because the amount of the profits of the enterprise depends on the composition structure and quality of the assets owned.
- Intensive methods, which imply the increasing of the value of an enterprise by improving the efficiency of internal operations, which means that an enterprise is better when it is more dynamic, more efficient, more productive.

During the outward expansion of companies it appears by default the need to broaden and strengthen the network of production activities abroad. If the firms activities on foreign markets at the beginning comprise the small parts of production process, consisting of simple assembly of final products to be sold or processed initial subassemblies, when companies having success or market signs expansion, these companies will transfer several parts of the process abroad, attributing them to subsidiaries [15]. Thus was the case with Japanese automobile manufacturers in Europe or the US. As the subsidiaries gain experience as affiliates and host countries show a growing interest for them, facilitating their action, there is a process of vertical integration of activities that companies hold internationally. At the same time, it can occur and widening the spectrum of goods made by overseas subsidiaries of the company, leading to a horizontal integration of their activities. Depending on the nature of the strategy followed by the company, offensive or defensive, it will seek to diversify abroad, which will determine to acquire new assets from other companies, or rely on strategic alliances with these. [1]

In a modern economy integrated into the world economic system is felt the need to attract foreign capital in order to benefit from the performance of post-industrial society. [9] At the current stage highly developed countries (US, Japan, Canada, EU) promotes an active policy both in attracting foreign direct investment and placement of theirs own means on other economies.

There are three reasons for such cross investments. Firstly, some multinational companies are able to achieve economies of scale through the operation of some production units located in different countries [1], continuing to use an integrated strategic planning system to track and control of production designated to various worldwide markets throughout the world. Ford Motor Company applies this kind of strategy in the production of certain models of cars in designated centers, for the supply of the wide territorial markets.

Secondly, increases the number of product-market differentiation opportunities, because the company has the ability to target specific market niches in different countries and to provision efficient through centralized coordination of operations. [7]

Thirdly, the convergence of consumers tastes on certain product markets allow a company to design and produce goods and services for global markets. These three categories of factors encourage companies which have the necessary resources to strengthen presence in each market area [18]. This thing is done usually through the forming of an own subsidiary, under exclusive control.

2. Sustainable economic development of recipient countries of foreign direct investment

Interdependencies between national economies that underpin the global economy and various forms of integration have been and are determined by the presence of irregular inputs of different levels of development of science and research, and technical and scientific progress in different countries. These differences have significantly contributed to the opening of national economies to increased exchanges between them and also the international economic cooperation. [18]

Given the multitude of assumptions and factors influencing the expansion and development of international or transnational companies in developed countries and also those who want to be growth poles of regional or global economy, there is obvious the countries involvement and support for companies expanding into new markets. In international economic affairs, and beyond, frequently asked the question about state intervention in the economy and the state-international company relationship.

The decisive factors that influence today's economies and emerging markets are international political and economic situation and interest by international companies in a particular country. Moreover, because of their financial power, international companies in emerging markets typically creates a supportive environment, such as facilities, preferential treatment, annuities, etc., by lobbying in the legislative and executive bodies. But in addition, more pronounced becomes the trend that states with emerging economies to legal stimulate the foreign capital flows by creating a favorable and more attractive legislative framework.

Thus, many countries have adopted the regime of free trade and free movement of goods and services, various tax breaks or incentives for foreign investment.

For the economic policies of developed and emerging developing countries is looming:

- more careful management of external trade flows to avoid their transformation into national income drains;
- applying consistent and perspective policies to foreign direct investment;
- insurance protection both for performant or vital national economic sectors and for domestic capital;
- differentiation of the liberalization and privatization measures;
- protection of domestic labor in its relations with foreign capital;
- maintaining a high level of investment in education, health and environmental protection;
- reduction and control of external debt, the efficient management of the funds obtained from foreign or international bodies;
- boosting medium-sized and small companies;
- careful management of new technologies, accompanied by adopting programs of human resources training and application atypical work forms;
- using the state potential to expand economic and social infrastructure and reduce costs of globalization.

States must develop and strengthen some rules of the economic game inside of liberal economic systems and create incentive mechanisms to stimulate foreign investments but also economic and financial control mechanisms.

These regulations must develop inside the states but also regionally through collaboration with partner countries and worldwide by participation in organizations and international agreements.

The foreign direct investment of community origin has already exceeds foreign direct investment from outside the EU. The increase of foreign direct investment in the EU can be attributed to the effects of the European single market. The plus of foreign direct investment is due, for the most part, to foreign direct investments in services. [5] Single market has encouraged the development of services, especially financial ones, through the grant of the right of establishment on the territory of another member-state. Single market did not promote however the customers service from outside the borders by the financial institutions, where the considerable interest accorded to foreign direct investments in financial services.

In international economic circuit it shows that the balance of forces often leans towards investors as transnational companies investing on different markets (countries), holding an economic force commensurate with the GDP of underdeveloped or emerging countries, in some cases State budget being exceeded by donor transnational company liabilities. In this situation objectively and naturally the poorer countries become financially dependent on large-scale strategic investors.

International companies play an important role in the economic development of states. Certainly it can be said that they expand and diversify the interdependencies between national economies, driving the development of markets for goods, services and capital. It can be seen that the markets of different countries present the same products, with a small share for the country-specific products. Thus, already we are witnessing a decreasing role of national borders, which tend to disappear.

International circuit of goods, services and capital is done through international companies. It is obvious that international companies are deeply interested in the maximum liberalization of goods and services circuit, placing all efforts to achieve this objective.

On the other hand, we must recognize that this free trade, sometimes contradicts the national interests of countries that, given they are run by competent and in good faith governments, adopted some protectionism measures in order to protect local producers, especially under conditions when there are elements of unfair competition. However, external pressure from international financial organizations, which sometimes represents the interests of international companies, such as the World Bank or the International Monetary Fund, considerably hinder such measures.

3. Sustainable growth of companies generating foreign direct investment

Markets with a lower level of development are likely to attract a higher level of direct investment than those in more developed countries. Specific reasons behind the decision of firms to invest abroad are operating efficiency, reducing risk, market development and government policy in the host country.

There are four reasons for foreign direct investment:

a) Search Resources: upgrading resource quality and availability of local partners willing to jointly promote use of knowledge and capital-intensive resources;

b) Search a market: the growing need to be closer to users in knowledge intensive sectors and the growing importance of promotional activities undertaken by regional and local development agencies;

c) Search for efficiency: the increased role of governments in removing obstacles that hinder the restructuring of economic activity and facilitating the modernization of human resources; the existence of specialized industrial concentration (industrial parks); an environment conducive to private initiative and a high degree of competitiveness and cooperation between firms;

d) Looking for strategic assets: favorable opportunities offered in exchange for tacit localized knowledge and interactive learning ideas; access to culture, institutions and different schemes and different consumer demands and preferences.

Foreign direct investment is a strategic alternative adopted when firms have acquired knowledge and market experience through earlier forms of participation. Foreign direct investment refers to participation in management and effective control of the company. At the same time, it involves by creating a company structure of international operations or expansion of its existing operations. Usually it requires a massive commitment of financial means and funds. More important is the transfer of technology, managerial skills, production processes, manufacturing and marketing resources and other resources.

Foreign direct investments occur when the expected level of net present value is positive and higher than the values of other market entry options and foreign production market.

Investing in foreign markets could improve the firm's ability to serve that market and nearby markets. By designing products according to local conditions, the company provides a better service to distributors and customers. Also, the company may be required to establish a local market to defend against competitors. Local production can reduce the final cost of the product by lower costs of production and distribution. Third, local production can become an inevitable solution, where government policies and customs barriers make the export an unattractive option.

Foreign direct investment occurs even where competitive alliances are difficult and make it impossible to achieve certain objectives. Sometimes, companies are unable to control use and exploitation of their technology through licensing or joint ventures. Foreign company can sometimes acquire a significant share of the local market when it can have local production that allows them to compete aggressively.

Prices remain the main competitive advantage of these companies abroad. A firm increases its efficiency of production if placed where inputs are the cheapest. For example, a number of German clothing manufacturers have opened production facilities in the Far East because labor is relatively expensive in Germany. Later, they began to appear and other variations location, especially in Eastern Europe. [5] Efficiency gains can be obtained if operating units are closer to the source of raw materials such as oil, minerals and timber. Also, efficiency gains can be achieved when the firm produces close to sales markets. This explains the location of many US firms in Europe, and Japanese companies in Europe and the United States. German car manufacturers are now placed in the United States and China both for reasons of cost and market related reasons.

For most service branches it is essential to locate in the area of their market. There are companies, especially in services, internationalizing through the acquisition of other companies, in particular to protect the domestic market and keep customers there. Advertising agencies often follow their customers abroad to protect their operations from home.

A situation of shortage or restriction of the currency market may encourage a company to place abroad to protect their profits and sales. Event of changes in exchange rates represent a motivator to perform or increase foreign investment. By placing production in several areas of foreign exchange, the company can afford production operations between sites to avoid possible losses from currency exchange rates. At the same time, a firm that invests in a foreign country is interested to repatriate profits, and therefore it seeks countries whose political climate allows that.

Another motivating aspect is related to cost reduction through economies of scale. Economies of scale appear in several areas of activity of the company, most often associated with the production, as is happening in the automotive industry in Europe, where various components are produced in different countries. European and even global networks of production have higher cost efficiency than that provided by the concentration production process in one place. Economies of scale can be achieved also on the financing operations and marketing. Economies of financial scale can be obtained by a firm that runs international operations when it acquires more access to capital markets.

Governments impose many times duties and import quotas, which oblige companies to place behind the barrier. In such a situation, foreign direct investment may become the only access to the market. Japanese automobile manufacturers were located in Europe and the United States to avoid import taxes or import quotas on these markets.

It is common for governments to offer attractive incentive packages to foreign firms that take into account foreign direct investment as a way to enter the international markets.

4. Conclusions

It is necessary to persuade multinational companies, giving them benefits and advantages in order to attract the investment , and convince them by the reality of economic, social and political life of the country which to place.

The growing power of these multinational companies or holding companies has created large concerns in many parts of the world, imposing the need for control over the activities of these companies. These multinational companies do not consider often the real interests of the countries where they operate or even work them sometimes against these interests. However a good administrative management and tax system of foreign investment can brings the beneficiary country direct investment advantages:

- raising capital for growth and development, capital which cannot be generated locally;
- introduction of new technologies, equipment, organizational solutions, which in turn would positively affect the entire national economy;
- increase production capacity by widening the market; new products can be exported under the new brand, best known on the international market;
- local resources capitalization (labor, materials, road infrastructure, telecommunications, cultural values, etc.);
- use local suppliers which can cause the development of local firms;
- profit growth at receiving investment companies;
- the possibility of tax collection in the recipient country immediately (VAT, payroll tax, etc.) or in future, after a period of exemption (profit or income taxes);
- increase employment and other social impacts especially in countries facing chronic unemployment;
- state budget revenues by imposing taxes on the activity of their respective owners.

However there are numerous risks related to the opening of a state to the capital market and foreign direct investment. From the perspective of the host country may be identified at least the following significant risks:

- increasing dependence on foreign companies in providing capital, technology and experience; there is even a risk of uncontrolled outflow of foreign capital and transfer to other markets;

- the negative impact on the economic, social and political systems by encouraging local consumption imposing different values of the local culture;
- increasing the use of non-renewable resources exploitation, and profits repatriation instead of reinvesting;
- providing a technology often outdated or too advanced by the multinational firm;
- removing some local companies, as potential competitors in certain areas;
- outflow of funds for payment of imported components and equipment and profits repatriation by paying dividends and other transfers between companies.

Multinational companies’ growth was possible mainly due to their ability to mobilize global resources, money, labor and materials. The internationalization of markets is based on the export of capital. The export of capital is generated by thereof surpluses, as well as the economic expansion of firms and the policy states. Such a situation leads investors to place their capital in other regions aiming to achieve the overprofits compared with those of the country of origin. The opportunity to obtain higher profits in other countries than the country of residence may cause an export of capital and deficit situation in the country of residence. Corporations finance their operations getting funds from stock markets that have available resources and using those equity resources where there are opportunities. Multinational companies are constantly in search of markets. Where markets are developing rapidly, these companies will seek to be present. From this point of view some of these companies will look for some advantages as investors, related to guarantees from partners and the host country:

- legislative levers to ensure that the objectives established will not be nationalized or expropriated;
- provision of real compensations in cases where, for exceptional reasons, there is a transfer of ownership;
- ensuring the abroad transfer of dividends, amounts resulting from the sale of shares and liquidation of the investment;
- providing a tax system that offer facilities in the early years of operation and durring the investment;
- the existence of a clear and stable legal framework with provisions which are consistent with international law;
- protection from being influenced by corruption and mafia, political factors etc.

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