

THE IMPACT OF FOREIGN DIRECT INVESTMENTS ON THE SMALL AND MEDIUM SIZED ENTERPRISES IN ROMANIA

Dan PÎRLOGEANU, Mihaela PANAIT (TANASE)

Abstract

Over the years, research studies in the business field have focussed on the contribution of foreign direct investments to the development of small and medium sized enterprises and their impact upon the host country.

Foreign companies have a positive effect on the production of the host countries units. Companies providing foreign direct investments on an emerging market exercise a competitive pressure which generates economic evolution for the receiving state.

Key words: foreign direct investments, small and medium sized enterprises, entrepreneurs.

Introduction

This study presents the contribution of foreign direct investments upon small and medium sized enterprises in the field of tourism. Foreign direct investments define the benefits of the receiving country's economy. Entrepreneurs associate foreign direct investments with the main engine of the development strategy for small and medium sized enterprises as well as with the modernization and stimulation of an increase in job offers. FDI represents, for countries in transition, the fastest, safest and most efficient way to connect the economies of these countries to the rhythm of productivity. FDI increase impacts directly on the increase of productivity resulting in economic growth.

The category of micro, small and medium sized enterprises comprises companies hiring less than 250 people and with a yearly turnover of up to 50 million Euros and/or total current assets of up to 43 million Euros. Small and medium sized enterprises represent the propulsive force of any economy and support sustainable growth. Within the European Union two thirds of the job vacancies in the private sector are generated by entrepreneurs. This is why maintaining a competitive entrepreneurial environment and promoting

entrepreneurship by supporting small and medium sized enterprises should represent a priority for any government.

Literature review

Technological externalities are regarded as the most important side effect of foreign direct investments. The study performed by Eaton and Kortum in 1996 indicates that technological innovation brought by FDI actually comes from three countries: Japan, Germany and USA and that attracting companies from these countries is likely to increase the technologic level of the host country. This aspect was confirmed by a number of other studies (Golberman and Kokko, 1999; Crespo and Fontura, 2007) although there is no consensus regarding their determinants. Technological innovation can be seen as the main factor of economic development, yet the dependence towards advanced technologies introduced by multinational companies can affect the economies dependent of the latter (Moura and Forte, 2009), due to the fact that most of technological research and development is produced by the big corporations mainly in their countries of origin (Borensztein, 1998).

The presence of foreign companies on the national market can bring solutions and innovations leading to the growth of companies belonging to the same economic branch (Mottaleb and Sonobe, 2011) or even new products that were absent from the respective market (Lin, 2012).

The competition offered by foreign direct investments can bring positive effects on economic growth, while their entrance in a sector where the competition level is low will help local companies in that area evolve and innovate the way they organize and provide resources (Fortainer, 2007). An increased competition derived from the entries of foreign direct investment can be beneficial both through an increase in the quality of goods and the decrease of prices on the market (Markusen și Venables, 1999). However, competition provided by a foreign competitor with much bigger resources and higher efficiency can also affect local companies. Bankruptcy caused to companies on the local market can result in a dominant position or even the monopoly of the foreign company and consequently the innovation rate as well as economic development decrease (Fortainer, 2007).

Research issue

Tourism represents an important sector of the economy of our country which helps national incomes and creates job opportunities. In order to improve and ensure the competitiveness of this sector it is mandatory to recognize the capacity of the touristic resources we possess and to support tourism development as well.

Part of the progress Romania has made in the field of tourism is owed to small sized enterprises who have tried to prove the credibility of their own initiatives fighting for an economy based on a free market. Romania needs stability and a leadership able to ensure the necessary criteria for obtaining as many foreign direct investments as needed for the development and wellbeing of its population.

The criteria that have to be met in order to attract foreign direct investments are: a solid and stable legislation regime, a free currency exchange system, qualified and cheap work force. One of the most important elements responsible for attracting foreign investments is the political system and its attitude towards the existing political situation.

In order to achieve success in the tourism industry it is necessary find the perfect balance between the important companies providing accommodation services, meals, transportation and leisure, agriculture, commerce with traditional products, financial services, health, communication services. This industry comprises many small sized enterprises that make the connection between tourists and the services provided by the tourism industry. Examples: small shops selling handicraft, clothing shops, food shops, taxi companies.

Thus, by means of a strong tourism SMEs are helped for a long period of time. Foreign direct investments offer new opportunities on the market, lower production prices, and access to new supply of products and funding. These external funding sources create a more stable relationship between the foreign and the host country, based on the acquisition of lands and buildings that cannot be easily abandoned by investors. The foreign direct investments are not always based on a bilateral relationship between a foreign and a host country. It is possible for investments in a country where raw materials are produced to be used for production in another country. Commercial agreements between countries represent a key element in foreign funding.

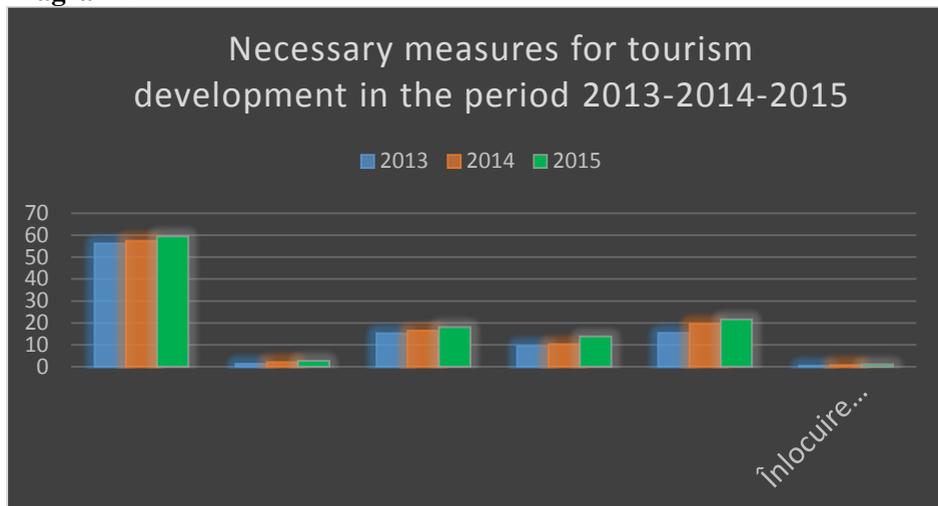
The possibilities to maximize FDIs in the local economy are related to the development of service supply towards local companies. Thus, farmers can be re-oriented and encouraged to sell fresh products to restaurants. This interaction be with hotel and restaurant chains create an opportunity for small enterprises to supply their services to large economic units, representing a survival and development tool.

Table1 *Necessary measures for tourism development in the period 2013-2014-2015*

No.	Measures that should be taken in order to increase economic activity	2013	2014	2015
1.	Increase of marketing activity	56.23 %	57.34 %	59.44 %
2.	Introduction of modern quality management systems	1.36 %	2.02 %	2.66 %
3.	Accurate training of the workforce	15.23 %	16.39 %	17.98 %
4.	Managerial restructuring and modernization	9.45 %	10.25 %	13.82 %
5.	Construction of buildings	15.37 %	19.59 %	21.60 %
6.	Replacement of machinery	0.00 %	0.00 %	0.15 %

source: INS (National Institute of Statistics)

Diagram 1



source: INS (National Institute of Statistics)

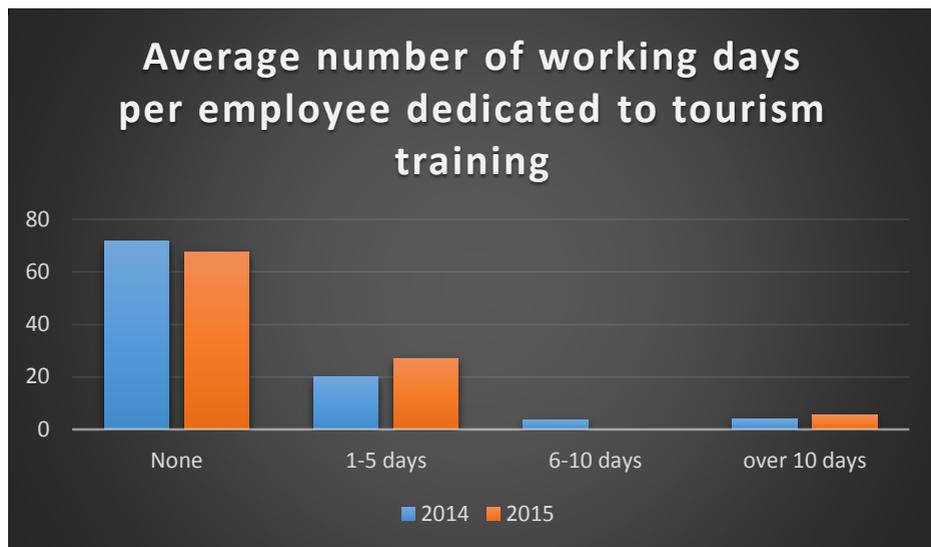
The investigation of small and medium sized enterprises, according to Table and Diagram 1, offers a perspective upon the increase of the quality of services in the field by indicating the contribution in the development of the human factor, constructions, the new quality management systems, while a huge step back is recorded as far as the replacement of old equipment and machinery is concerned.

Table 2 Average number of working days dedicated to the training of small and medium sized enterprises in the field of tourism in the period 2014-2015

No.	Average number of working days dedicated to the training of small and medium sized enterprises	2014	2015
1.	none	71.72 %	67.57 %
2.	1-5 days	19.86 %	27.03 %
3.	6-10 days	3.56 %	0 %
4.	over 10 days	3.78 %	5.41 %

source: INS, White Carta of SMEs

Diagram 2



source: INS (National Institute of Statistics), White Carta of SMEs

The analysis of companies according to the number of days offered for staff training shows the importance of the latter in an increased quality of tourism. The optimal number of days for training is between 1 and 5 days, that would offer enough time for developing the necessary skills required for a more efficient performance of work tasks. Staff training is one of the factors contributing to the development of tourism.

Table 3 Foreigners' arrivals and overnight stays in Romania

An	Foreigners' arrivals	Foreigners' overnight stays
2012	1653134	3283720
2013	1718314	3474324
2014	1908344	3762817
2015	2237083	4454626

Source: Processed according to press releases on tourism, INS (National Institute of Statistics) 2012-2015

Foreign visitors had a low percentage in Romanian tourism, 21.2% of the total number of arrivals for the period under study. European tourists were the most numerous, the most important markets being Hungary, followed by Germany, Italy and Poland. The situation is similar in the case of overnight stays, the number of foreigners representing 18.2% of the total number of overnight stays. The main export market for Romanian tourism is Europe, over 80% of tourists coming from European markets.

Table 4 Value of foreign direct investments in the field of hotels and restaurants in Romania

Year	FDI value for hotels and restaurants
2012	354756000
2013	359748000
2014	541782000
2015	679897000

Source: Processed according to the BNR (Romania National Bank) report on FDI 2012-2015

As far as economic activity is concerned foreign direct investments had the higher percentage in the processing industry (31.8% in 2015). The value of FDIs in the hotel and restaurant industry recorded an ascendant trend in the period 2012 – 2015, overtaking other economies in the area. The

presence of new opportunities offered by foreign investors and their introduction in the holiday circuits increased the number of foreign tourists.

Table 5 Correlation analysis between foreigners' arrivals and foreigner's overnight stays and FDI in *the field of hotels and restaurants in Romania*

Correlations

		foreigners' arrivals	foreigners' overnight stays	FDI tourism
foreigners' arrivals	Pearson Correlation	1	,998**	,981*
	Sig. (2-tailed)		,002	,019
	N	4	4	4
foreigners' overnight stays	Pearson Correlation	,998**	1	,966*
	Sig. (2-tailed)	,002		,034
	N	4	4	4
FDI tourism	Pearson Correlation	,981*	,966*	1
	Sig. (2-tailed)	,019	,034	
	N	4	4	4

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

In order to prove the connection between foreign direct investments in the field of hotels and restaurants and foreign tourism we used the correlation process (Tables 3 and 4). The Pearson correlation coefficient suggests that there is a direct correlation between the variables, since its value is very close to 1.

The Sig. value corresponding to the correlation between foreign students' arrivals and foreign direct investments in the hotels and restaurants category is 0.019, while the value for foreigners' overnight stays and foreign direct investments in the field under analysis is 0.034. Both values are lower than 0.05 and we can conclude that the variables are correlated.

Conclusions

Foreign direct investments help in developing weak areas in the tourism industry (unqualified workers, old equipment and materials, old buildings and so on) and create relationships between investors and local entrepreneurs.

FDI is supposed to support tourism in emerging economy countries and guide their first steps in the development of this industry and in the effort to attract the highest possible number of foreign tourists. The development of this sector leads to inter-sectorial development (tourism-constructions, tourism-transportation).

The present study suggests that the attraction of foreign tourists in Romania will result in the encouragement of foreign direct investments in the field of hotels and restaurants. The new locations will be included in the international holiday circuits and thus the national tourism will be revitalized.

Small and medium sized enterprises in the field of tourism can benefit of foreign direct investments by means of the competition brought on the market and the increase of the number of foreign tourists. From the perspective of the relationship between foreign direct investments and small and medium sized enterprises in the field of tourism one can understand the importance of FDIs in the economic life of these units and the development opportunities offered by foreign direct investments: training and qualification of the human factor, development of technology and management.

Moreover, it is absolutely mandatory for Romanian entrepreneurs to stop motivating themselves with phrases like “Romania has an extraordinary touristic potential” and to stop considering this natural “heritage” as sufficient. It is, on the contrary, high time that they help its development by sustainability and innovation from foreign direct investments.

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