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***THE CONTRIBUTION OF FOREIGN INVESTMENTS TO  
ROMANIA'S DEVELOPMENT AFTER 1989.***

***FRENCH INVESTMENTS***

***~SUMMARY~***

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**Key words:** foreign direct investments, French capital, French-Romanian economic projects, economic and social development, entrepreneurial culture, institutional framework, transition, market economy, international company, diplomatic relationship, economic diplomacy, investment climate, economic attractiveness, positive spillovers, productivity.

## **ABSTRACT**

Starting their return to democracy and to a market economy having significant gaps compared to Western Europe, Central and South-Eastern European countries look forward to establishing connections to regain their competitiveness. Living in the age of technology, the lack of technological development becomes one of the most important barriers to overcoming these gaps. The majority of technological innovations are launched in developed countries, enabling them to distribute the means of modernization through their institutions and economic agents. As a result, developing countries need to rely on external support for technological resources, highly skilled labour force, education and training. And because these countries lack financial resources, foreign direct investment is regarded as the most suitable option from an optimal cost-benefit perspective.

Trying to explain this context, we can articulate a research plan with a dynamic structure, which emphasizes the aspects representative for the period starting with the fall of communism and continuing to 2015. The research brings new perspectives by using the semi-structured interview as a working method to analyse the impact of the French capital on Romania's development and modernisation through its economic, cultural, and diplomatic leverage (Cultural Institutes, French Embassy in Romania, Romanian-French Chamber of Commerce, and Francophone Business Club).

Thus, starting with the assumption that Central and South-Eastern European countries, and Romania implicitly, need foreign investments to reduce the distance from the Western countries, in this paper we will follow various aspects such as: the definition of the 'capital' concept, the significance of the foreign capital for the Romanian economy (what it consists of, its trajectory, impact, its current status, etc.) giving special attention to the French capital in a case study.

## RESEARCH OBJECTIVES

The motivation to carry out this research is based on the current considerations and debates related to the actions that Romania could undertake in order to develop and modernize with the accession to the European Union. Therefore, a recent study on the impact of the foreign capital on the country's development can serve as an important source of information in shaping a strategy for economic growth and modernisation.

The subject of the research is considered to be of interest, as the economic support provided to Central and South-Eastern European countries through Western investments continues to be a common practice. The persisting gaps between the two zones of the Europe is constantly confirmed and accepted by both parties, and the question arising in this context is around the maintenance of the unity of the European project under this circumstances. The solution seems to be the same as in the interwar period – i.e. the need to rely on foreign investments in conjunction with other financial resources.

The general objective for the thesis (its scope) is to analyse Romania's evolution after 1989 in order to validate or dismiss the interdependency between economic development and foreign direct investments. Its focus is to explore the impact of certain economic indicators combined with the diplomatic relations between the two states, Romania and France, rather than provide an economic analysis. The entrepreneurial culture induced by the investing country is also taken into account.

The following secondary objectives are derived from the general objective:

**Objective 1:** Analysing the associated terminology and the overall social-political context.

**Objective 2:** Identifying the main foreign investors in 1990 - 2015 by assessing their impact on the economic and social environment.

**Objective 3:** Describing the trajectory of the French capital in different domains and analysing, in a case study, the main institutional and commercial entities involved in the management of this capital.

**Objective 4:** Identifying best practices used to attract foreign direct investments in order to support economic growth and social progress in Romania.

To reach these objectives, the research is based on the general hypothesis stating that foreign direct investments have a significant impact on the rapid development of a state, once it returns to democratic systems and a market economy. The paper aims to identify the correlation between the amount of the foreign investments, the French capital in particular, and Romania's evolution.

Consequently, to support its objectives, the research is structured around the following questions:

**Research question 1:** How important is the general context in driving the set-up of an environment that favours foreign direct investment?

**Research question 2:** How efficient was the contribution of the foreign capital to Romania's development throughout 1990 - 2015?

**Research question 3:** Is the presence of the French capital hindered or amplified by certain factors?

**Research question 4:** What is the attitude of the local authorities and of the French investors towards the economic environment in Romania?

The research structure supports a logical and comprehensive analysis of the trajectory undertaken by the French capital in Romania and its contribution to the country's development, its modernisation and Europeanisation in the recent years. The scope of these questions is to enable comparisons between the share of the capital and the economic growth during the political and economic changes between 1990 and 2015. It also aims to determine Romania's involvement in becoming an important international actor.

## **RESEARCH METHODOLOGY**

The scientific support to a paper is offered by the adequate use of methods, techniques, procedures and tools, in accordance with the research scope and type. The role of these indicators is to plan, organise, collect, analyse and distribute meaningful knowledge. From a methodology perspective, the validity of a scientific research is confirmed when it develops new connections between various areas and poses new research questions.

Therefore, each scientific paper requires a methodology and a structure customised to its objectives. To elaborate this thesis, I have taken into account the need to balance various research methods, as well as the need to use the ones which allow a thorough analysis of the elements considered to be of interest.

Considering the subject of this paper and the multitude of the used materials, an important condition is to maintain the objectivity needed in data gathering, processing and interpretations, without excluding the necessary elements. The same note is extended towards the accuracy and impartiality of the information used for this research. The research methodology comprises two perspectives: the classic one, used in the study of International Relations, which implies the analysis of data from written sources, as well as documents or official web pages, and the innovative perspective, involving semi-structured interviews with interested parties and different actors taking part in the management of the French capital.

The research strategy, through the methods it uses, is not limited to identifying and analysing information to assess the hypothesis' validity; the main focus is on data interpretation from multiple perspectives to broaden the research area and launch new questions. A significant importance was given to historical data in defining the research hypothesis and their validation. The bibliography used and the information collected from the semi-structured interviews, contributed as well.

Diversifying the research methods, and especially using alternatives that are not very common within the discipline, will position the research beyond the known boundaries, leading to a more complex analysis. The complexity of the research is not given only by the use of qualitative methods, it is also supported by quantitative methods, which provide a visual representation of the data, and, most importantly, by the use of comparative approaches.

## THE STRUCTURE OF THE THESIS

The paper revolves around a central pylon formed of five complementary sections – four chapters and a study case, which aim to illustrate a complete and comprehensive imagine of the research topic. Foreign investments from 1990 - 2015 are analysed both from a theoretical and a practical perspective, through a case study based on the information gathered from semi-structured interviews.

The first chapter treats the *General aspects regarding the theoretical approach of the research*, offering a preliminary presentation of the research topic, and defining the terminology used in the paper, by referencing the thesis taken into account from this research field. I have selected the most relevant studies related to foreign direct investments at national and international level as well as a significant number of official reports issued by national and international institutions and organisations. Each of these papers bring a considerable contribution to this thesis considering their utilisation both in academic papers and statistical studies.

To further analyse the significance and the impact of foreign direct investments, I look at the theoretical concepts and their influence on the thesis' topic. From an empirical perspective, I consider the following concepts as being essential to this writing: investment, foreign direct investments, foreign direct investor, foreign company, and economic diplomacy.

The role of the second chapter, *Social-political perspectives on the national and European context in Romania and France in 1989 – 2017*, is to illustrate the political and social environment between the two states, aiming to emphasize the basis of their diplomatic relations established in this period. This chapter also offers a broad perspective on the European geopolitical climate at the end of the XX<sup>th</sup> century, considering the closure of the Cold War and the democratisation started in Central and South-Eastern Europe.

To sustain the analysis, I present the social-political environment in the two states: Romania and France, also mentioning the governments and the presidents of the two countries throughout the time frame of this research to highlight their main actions undertaken towards foreign direct investments and their influence on the diplomatic relations established between the countries.

The following chapter, *Qualitative and quantitative aspects related to the protection of the foreign capital in Romania in 1990 - 2015*, analyses the flows of the foreign capital specific to this period. It highlights the legislative framework which dictates the access and the functioning of the foreign capital, including the necessary steps and conditions to regulate foreign investments in the local economy. A part of the chapter is dedicated to describe the evolution of the current legislation regarding foreign capital and investments.

The most important part of the third chapter presents the movement and the dynamics of foreign direct investments during the analysed period. It portrays Romania's economic evolution and the yearly contribution brought by the foreign capital, explaining the variations, either positive or negative, and their consequences on the economic progress. Graphical representations are also included to offer a comprehensive image.

The research also includes a chronological distribution of foreign investments throughout the main activity domains, taking into account the top five investing countries for a complete analysis. Taking into account that foreign investments influence evolution of other sectors as well, not just the economy, the next section illustrates the impact of the foreign investments, bringing both positive and negative examples.

The last part of this chapter has an important role in defining the research hypothesis as it presents the favourable factors contributing to Romania's development, following the increase in the amount of the foreign capital invested in the local economy. The importance of these factors is also raised in the questions used in the case study.

Chapter number four, *Qualitative and quantitative aspects for French capital evolvement in Romania*, starts by describing the governmental policy towards attracting foreign investments and it presents the evolution of the economic and diplomatic relations between Romania and France. The main focus of the research is to determine the contribution of the French investments on Romania's development. As such, we considered important to present the historical trajectory of the French capital and its impact, starting with interwar period, continuing with the diminished impact during the communist period, and concluding with its current structure and distribution. This description of French investments from the recent years concludes the fourth chapter and feeds into the case study.



The last chapter focuses on *The current structure of the French capital in Romania*. It is structured in two sections – the first part is static, presenting the current investment domains, whilst the following part is dynamic as it analyses the information gathered in the semi-structured interviews with various French actors involved in the management of their capital. The scope of these interviews is to grasp their perception and interpretation of Romania's economic environment.

I have chosen to build the case study around interviews with active parties, involved in Romania's current evolution, to bring the PhD research closer to day to day reality and avoid being limited to a theoretical analysis, based only on library materials. As a result, the case study is intended to be the innovative approach for this research, being focused on capturing the opinion of the main stakeholders involved in the management of the French capital throughout 1990 - 2015, which has had an important impact on Romania's evolution. Their input complements the analysis of the scientific papers from this research field.

## **PERSONAL CONTRIBUTION**

Throughout my research, I have not identified research papers that study foreign investments in Romania covering the entire period between 1990 and 2015. I have not identified studies focusing on the French investments in Romania, either, or their contribution to Romania's economic and social development.

The innovative aspect of this research is represented by the semi-structured interview used as a method to validate the research hypothesis. The data gathered from various documents and research papers is compared and validated through the responses gathered in interviews from institutions and companies representatives, involved in the management of the French capital. There have been no other papers identified at international level using interviews to analyse this topic.

Essentially, by using diver but also complimentary research methods, we have managed to identify enough arguments to support the validity of the hypothesis claiming that French capital has contributed significantly to Romania's development in the last 27 years. Although we support and appreciate domestic efforts oriented towards economic and social development, we consider that the progress would have been slower without external contributing factors, considering the current environment. Therefore, Romania needs to focus its efforts on attracting strategic foreign investments, which are able to generate a sustainable positive impact.

Consequently, acknowledging the limitations of this research, it also contributes to the studies focused on foreign direct investments, by offering a comprehensive perspective on the evolution of the foreign capital, in general, and the French one, in particular. It presents the information both chronologically and distributed across various domain activities, providing a wide array of data that can be used as future research material.

## LIMITATIONS AND FUTURE GROUND FOR RESEARCH

Foreign direct investments in Romania is a current topic that gained more interest in the recent years in the context of Romania's return to democracy and market economy. Even so, analysing the publications and papers from this domain, I have not identified extensive and exhaustive analysis on this topic, most of the available papers covering only small sequences.

The limited number of research papers treating this subject is not necessarily a limit to this thesis as the structure of this writing is based on the analysis and the interpretation of various primary sources such as official statistics and reports. Difficulties arise with the interpretation of the data related to French capital, as well as getting access to more complex information regarding different companies considered for this research – financial reports are rarely available and there is reduced information regarding their business model in Romania, or their entrepreneurial culture on the local market.

Another limitation caused by the use of the semi-structured interviews as a research method is the refusal of some parties to take part in this study. This was mostly noticed with individuals from companies operating with French capital; institutions representatives were more open to discussion.

Consequently, taking into consideration the feedback received following the publication of some parts of this research, the thesis is regarded as being well documented and organised efficiently to provide valuable information for further research on this topic. Taking into account the validity of this thesis' hypothesis, as well as its limitations and personal contributions, other potential studies could be oriented on particular analyses for other types of foreign investment coming from the top five investing countries, using the approach from this paper. Moreover, having more writings on this topic will allow further comparative research among various types of capital, in different domains or periods of time. In a future paradigm, we could also focus on studying a particular investment domain chosen by the French capital and possibly compare various fields. Look at all these potential research directions, foreign direct investments in Romania is still a research field that has not been explored sufficiently, especially if we were to think of the effects of the foreign capital in Romania.

## **CONCLUSIONS**

This thesis is essentially portraying Romania's development trajectory after 1989 to validate or illustrate the interdependency between evolution and foreign direct investments. It is not an economic paper – the focus is rather on the impact of various economic indicators combined with the diplomatic relations between the two states, Romania and France, including elements specific the entrepreneurial culture of the investing country.

The result is a personal analysis and interpretation of the opinions gathered in semi-structured interviews with actors involved in the management of the French capital in Romania. Taking into account the instruments used in this research, as well as the broad historical context, this paper brings relevant information to highlight the importance of the foreign investments in the country's development, arguing that special attention needs to be given to managing these financial resources efficiently.