

General characterization of the international business environment – opportunities and threats for Foreign Direct Investments

Phd. Diaconu Mihaela
Phd. Sebastian Ene
„Constantin Brâncoveanu” University, Pitești

***Abstract** The policies and the behavior of the governments have a powerful impact on the investment climate, reflecting itself on the costs, resources and tariff and non-tariff barriers that a developing company comes across. Governments are responsible for the way in which, through the policies they promote, they support companies in their development. A powerful company, a non-monopolistic one, which acts in an environment of competitiveness produces multiple positive effects: it improves the quality of the products that better satisfy the consumers' requirements, it hires labor supply that they further qualify in order to face the requirements of the market, it better adapts to the economic environment, it pays the duties and taxes to the state, etc.*

Key words: foreign direct investments

JEL classification: F 20

The development of an economy, of a business presupposes the creation of a certain economic, social and political climate that can allow this thing.

Each government and political authority has the obligation of undertaking those measures that can contribute to the creation of a prosperous business environment, which can allow the attraction of investments regardless their provenance, autochthonous or foreign, a solid economic growth, which can implicitly lead to the growth of the population's living level.

According to the World Bank¹ "... private companies represent the heart of the development process. Guided by the desire of obtaining profit, companies of any kind, from farms and micro enterprises to local and international companies, invest in new ideas, which constitute the basis of the economic growth and of prosperity. They provide more than 90% of the work places, create opportunities for the people to empha-

¹ www.worldbank.org – World Development Report 2005 – overview, p. 1

size their talent and the possibility of increasing their living level. They provide goods and services necessary for the daily life, they represent the main source of incomes for the state budget and that of the social insurances, being the main actors for the economic growth and for the reduction of poverty.”

Having an overall view on the role of the companies and investments in an economy, we see why it is important to create a favorable investment climate.

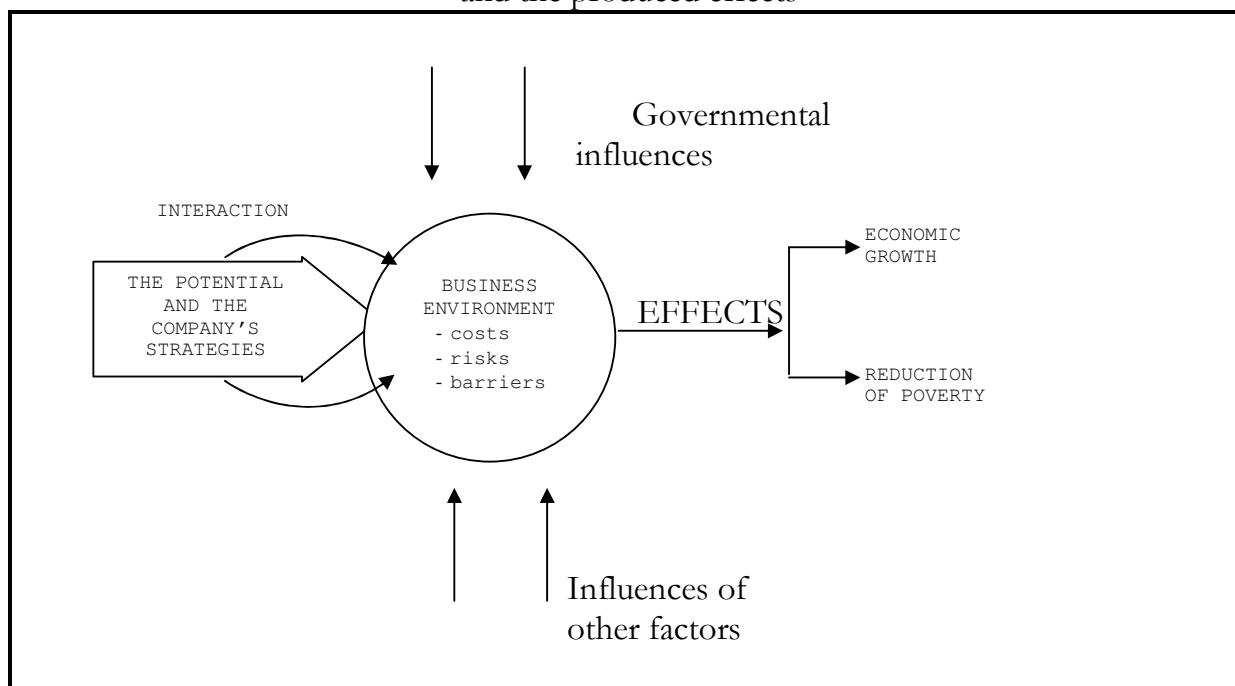
But what do we understand by investment climate? The investment climate represents a set of measures, an entirety of factors through which opportunities for companies are created, subsequent to which they accomplish profitable investments, create work places, develop themselves.

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In Figure 4.1 there are presented the connections among the company, the business environment and the produced effects:

Figure 4.1

The connections among the company, the business environment and the produced effects



Source: completed by the author using World Development Report 2005

Due to the overwhelming importance of companies in an economy, governments have taken a series of measures that contribute to the attraction of direct foreign investments, especially given that during the period 2000 – 2005 they have considerably decreased. In table 4.2 there are presented the changes from the national legislations regarding the DFI.

Table no 4.2

Legislative changes concerning the DFI (1995-2003)

INDICATORS	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number of countries that have changed their legislation	64	65	76	60	63	69	71	70	82
Number of changed regulations out of which:	112	114	151	145	140	150	208	248	244
- Favorable	106	98	135	136	131	147	194	236	220
- Unfavorable	6	16	16	9	9	3	14	12	24
DFI									

Source: UNCTAD, World Investment Report 2004

We notice that in 2003, 82 countries have changed their legislation concerning the DFI as compared to 64 in 1995. The number of changed regulations has practically doubled, most of them in favor of DFI (220) while the regulations that complete the DFI have been only 24.

But how do the main components¹ (costs, risks and tariff and non-tariff barriers) influence the investment climate?

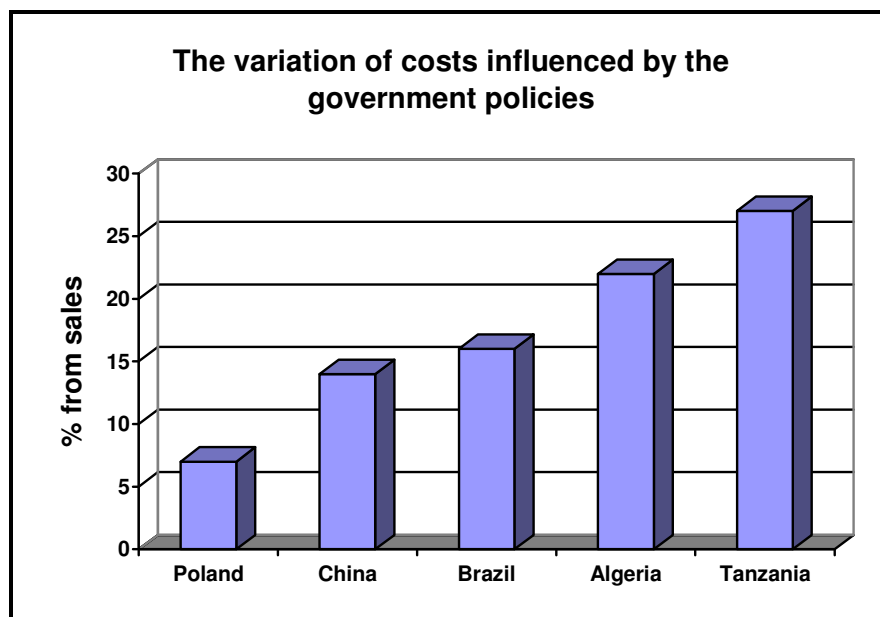
Concerning the costs, these are associated with the activity of exploitation and commercialization of the company. But costs are also influenced by the governmental policies. The profit tax, the contributions to the social insurances paid by the company directly influence the total costs of the company.

So, the fiscal policy promoted by the government can favor or not the business environment. The government decision of raising the discount tax will contribute to the rise in the prices of credits on the financial market. To these we also add the costs generated by the public services: obtaining licenses, registration at the fiscal bodies, etc.

An eloquent example in this regard is the opening of a phone line that lasts from two days in Austria and 200 days in Haiti.²

Figure 4.2

^{1,11} www.worldbank.org – World Development Report 2005 – overview, p. 3

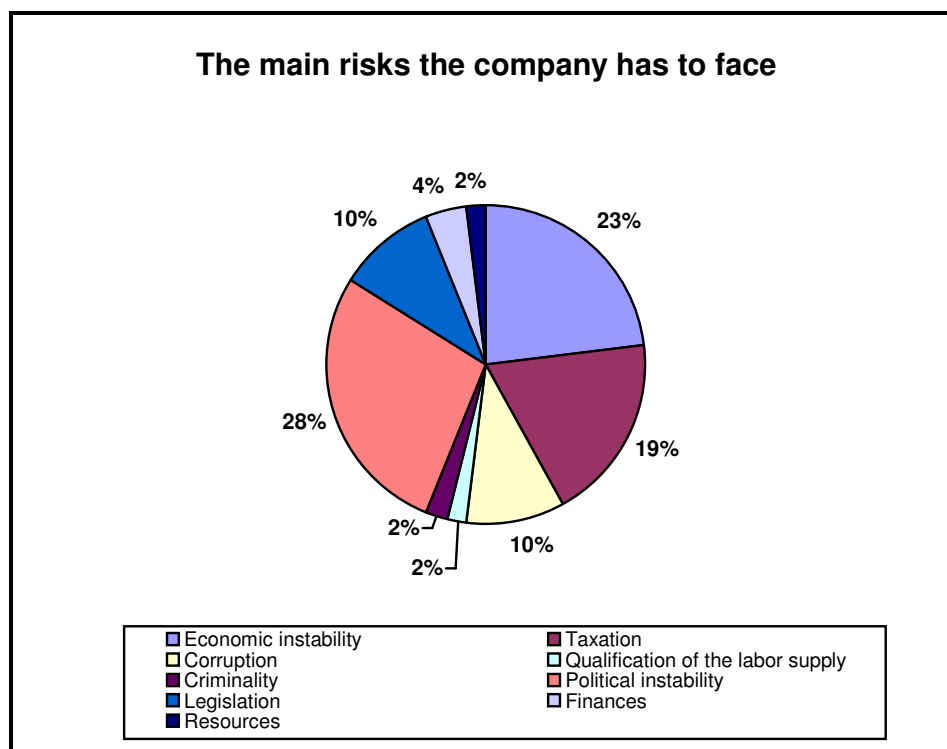


Source: World Bank Investment Climate Surveys, 2004

Concerning the risks, they must be divided into two: risks that are caused by the market and the competition, and risks that have something to do with the governmental policy.

Regarding the first category of risks, companies must adapt themselves to the environment, to face the pressures of the competition and of the clients. The way they face the market is entirely up to them. On the other hand, in the latter category, the government plays an important role in reducing or increasing the risks. At this level, the most frequent risks that the company must face are: the political instability (28%), the economic instability (23%), the fiscal instability (19%), legislative measures (10%), and corruption (10%).

Figure 4.3



Source: World Bank Investment Climate Surveys, 2004

The tariff and non-tariff barriers also contribute significantly to the modeling of the investment environment. The customs policy can constitute an important barrier concerning the circulation of merchandise and of raw materials. The barriers regarding the circulation of capital or of the labor force also constitute impediments in the development of a company. To these we can add the distance, the risks and the costs related to the entry on a certain market, etc.

With reference to the improvement of the business environment, companies consider that one should mostly act in the following directions¹:

- stability and security;
- legislation and taxation system;
- financial services (financing) and infrastructure;
- the market of the labor force.

Concerning the stability and security, companies consider that it is essential to consolidate the climate of general stability and security. The macro-economic stability: low inflation (below 3%), stimulating interest rates that can allow the development of credits for investments, the observance of the market rules, the insurance of a climate that can allow the economic growth, to which one can add the increase of the political and social safety, all will favor a propitious environment for business.

Where does one have to act on the international level to improve the business climate from this point of view? The transnational companies give the following answer:

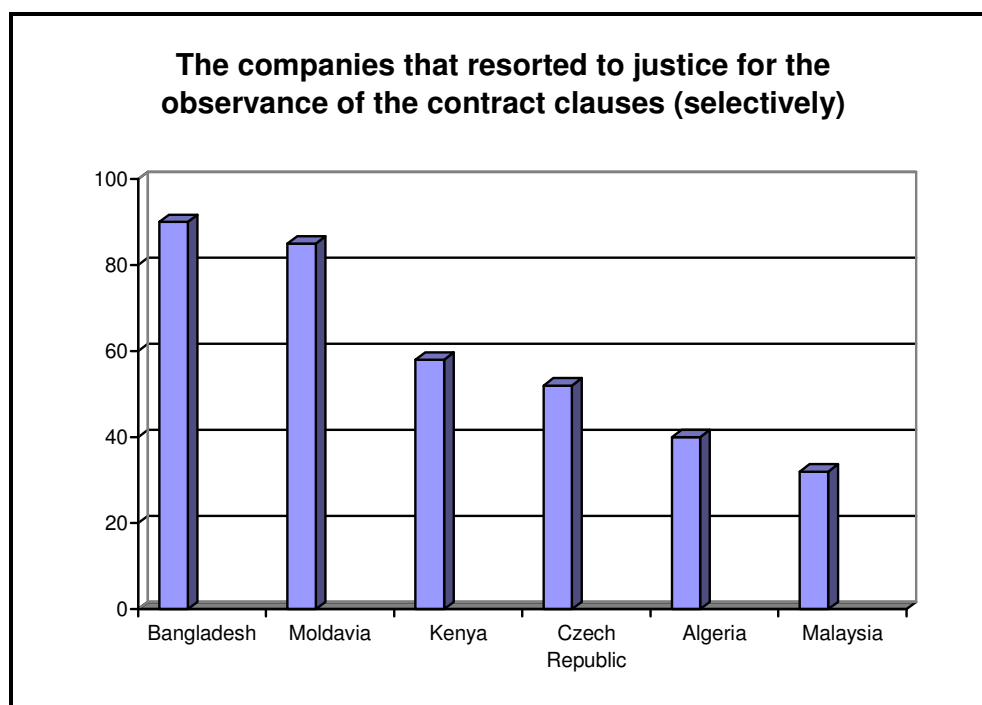
¹ www.worldbank.org – World Development Report 2005 – overview, p. 12

the possibility of purchasing land and owning properties, observing the contract stipulations, the reduction of economic criminality, the granting of equitable compensations when a natural person is expropriated in order to achieve a public objective.

Experience has proved, for example in Peru and Thailand, that the ownership over land determines transnational companies to achieve much more important investments only when they do not have this right. A bigger and bigger number of countries have clarified their legislation lately concerning this point of view.

The observance of the contract provisions constitutes a further reason for the transnational companies to invest in a country. The solving of conflicts concerning this topic lasts between 48 days in Holland, up to 600 days in Bolivia and 1,400 days in Guatemala.

Figure 4.4



Source: World Bank Investment Climate Surveys, 2004

The reduction of the economic criminality is another requirement for the improvement of the business environment. There are countries such as those from Latin America in which 25% of the GIP is allotted to the fight against criminality. Transnational companies fear that their employees or the company's management could suffer under these circumstances.

Regarding the expropriation in order to achieve a general interest, companies claim a justified compensation that will not affect their patrimony.

The legislation and the taxation system represent another reference point on which companies insist. The frequent legislative changes and the fluctuation of the taxation system determine some companies to have a reserved attitude concerning the DFI. Countries that have faced such problems are: Bolivia, Uganda, and Vietnam. These countries, over the last years, through successive reforms, have considerably improved their business environment.

The financial-banking system and a country's infrastructure can also constitute reasons to determine the big companies to direct or not their investments towards them.

A well-organized financial-banking system and a modern infrastructure will undoubtedly attract DFI, while in the absence of such a system the DFI will avoid the respective country.

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Caracterizarea generală a mediului de afaceri internațional – oportunități și amenințări pentru ISD

dr. Mihaela Diaconu, dr. Sebastian Ene

Dezvoltarea unei economii, a unei afaceri presupune crearea unui anumit climat economic, social și politic care să permită acest lucru.

Fiecare guvern și autoritate politică are obligația de a întreprinde acele măsuri care să contribuie la crearea unui mediu de afaceri prosper, care să permită atragerea de investiții indiferent de proveniența lor, autohtone sau străine, o creștere economică solidă, care să conducă implicit la creșterea nivelului de trai al populației.

Potrivit Băncii Mondiale¹ „...firmele private reprezintă inima procesului de dezvoltare. Călăuzite de obținerea profitului, firmele de orice fel, de la ferme și microîntreprinderi la companii locale și multinaționale, investesc în idei noi, care constituie baza creșterii economice și a prosperității. Ele furnizează mai mult de 90% din locurile de muncă, creează oportunități pentru ca oamenii să-și pună în evidență talentul și posibilitatea de a-și crește nivelul de trai. Acestea furnizează bunuri și servicii necesare vieții de zi cu zi, sunt principala sursă de venituri la bugetul de stat și la cel al asigurărilor sociale, fiind actorii principali ai creșterii economice și ai reducerii sărăciei.”

Având o imagine de ansamblu cu privire la rolul firmelor și investițiilor într-o economie, realizăm de ce este importantă crearea unui climat investițional propice.

Dar ce înțelegem prin climat investițional ? Climatul investițional reprezintă un set de măsuri, un ansamblu de factori prin care sunt create oportunități pentru firme, în urma cărora, acestea realizează investiții profitabile, creează locuri de muncă, se extind.

Politicile și comportamentul guvernelor produc un impact puternic asupra climatului investițional, reflectându-se asupra costurilor, resurselor și barierele tarifare și netarifare pe care le întâlnește o firmă în expansiune. Guverne sunt responsabile de modul în care, prin politicile pe care le promovează, sprijină firmele în dezvoltarea lor. O firmă puternică, nemonopolistă, care acționează într-un mediu concurențial produce efecte pozitive multiple : îmbunătățește calitatea produselor care satisfac mai bine cerințele consumatorilor, angajează forța de muncă pe care o califică pentru a putea face față cerințelor pieței, se adaptează mai bine mediului economic, plătește impozite și taxe către stat, etc.

¹ www.worldbank.org – World Development Report 2005 – overview, pag. 1

Mihaela DIACONU, Associate professor PhD, Department of International Business and Economics, „Constantin Brâncoveanu” University, Pitești.

Sebastian ENE, Lecturer PhD candidate, „Constantin Brâncoveanu” University, Pitești.