THE IMPACT OF FDI ON ECONOMIC DEVELOPMENT: A COMPARATIVE STUDY OF MOLDOVA, ROMANIA AND UKRAINE

IMPACTUL IDS ÎN DEZVOLTAREA ECONOMICĂ: STUDIU COMPARATIV A MOLDOVEI, ROMÂNIEI ȘI UCRAINEI

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Abstract: *Impactul investiţiilor străine asupra economiei este incontestabil: lanţul de efecte pe care le creează se răsfrâng atât asupra producţiei de bunuri şi servicii, situația economică, cât şi asupra consumului, motivând simultan cererea şi oferta. Investigațiile propuse prezintă o analiză statistică a indicatorilor macroeconomici și climatul investițional a țărilor: Republica Moldova, Romania și Ucraina, prim metoda comparării și aprecierii conform criteriilor stabilite.*
Cuvinte cheie: *FDI, Ukraine, Romania, Republic of Moldova, impact, strong points, weak points*

JEL CLASSIFICATION: E22, F21

INTRODUCTION. Our study focuses on the role of foreign direct investment (FDI) inflows in promoting economic growth and their effect mediated by income levels and the quality of the institutional environment. FDI is being considered the most important source of external resource flows to developing countries throughout years and has become a major part of the capital formation in these countries, despite their share in the global distribution of FDI continuing to remain small or even declining. Therefore,an important impact on the economy is reflected by foreign direct investment. Our study focuses on the assessment of economic development of Republic of Moldova, Romania and Ukraine through the prism of Foreign Direct Investments, by tackling the impact on economic indicators, as well as risks and benefits that are encountered by investors.

BASE CONTENT. The first country to analyse in our reasearch is the Republic of Moldova. It is important to remark that the European Union (EU) represents one of the main sources of FDI for Moldova, accounting for 61% of Moldova's FDI stock. Going deeper into the case, figure 1 shows the FDI stock per capita in USD for different countries in 2015. The top performer in this comparison is Estonia with an FDI stock per capita of over USD 14,000. Moldova has the second-lowest stock in this group with around USD 741 per capita [1]. According to the 2019 data from National Bank of Moldova [2], the stock of FDI increased by over 7.6% and amounted at 4,49 billion dollars in the 2 quarter and 4,79 billion dollars at the end of the year (table 1). The increase in stock resulted from the actual net inflow of direct investments of 589 million dollars, which is 6-fold the actual FDI Inward Flow in 2015. The main part of the FDI that are arriving in Moldova have the form of corporate restructuring and development projects, as well as greenfield projects (6 of them in 2019).

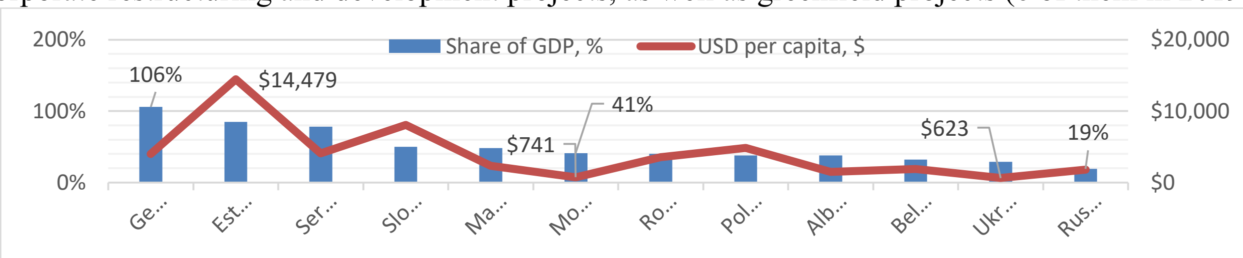

Figure 1: The share of foreign direct investments in GDP and FDI per capita, 2015
Source: IMF CDIS, 2015

16-17 aprilie 2021, Chişinău, Republica Moldova, e-ISBN 978-9975-155-43-4; DOI 10.5281/zenodo.5669933.

Table 1. Foreign Direct Investments and their structure in the 2017-2019 period in Moldova

Foreign Direct Investments	2017	2018	2019
FDI Inward Flow *(million USD)*	157	308	589
FDI Stock *(million USD)*	3,679	4,121	4,792

Source: UNCTAD

Moldova enjoys investments from 86 countries [3] with the major FDI sources being the EU, the Commonwealth of Independent States (CIS), the USA and Canada. By 2019, over 86% of FDI come from European Union, having an increase of 3,3% in comparison with 2018, and 105% in comparison with 2015. The share of CIS countries in the FDI Stock has decreased to only 4,6%, while the capital from Other Countries have a weight of 8,9%. Regarding the structure of the FDI, the shares of main sectors of economy have changed considerably, so that in 2003-2007 period, the share of FDI toward services was 53%, leaving the manufacturing sector with 36%, while extractive and agriculture sectors accumulated 9% and 2% respectively. In 2013-2017 period the share of manufacturing sector has rocketed up to 60% leaving services on the 2nd place with 40%. The most important service sectors in the last period are: construction, IT services, financial and health sectors. From manufacturing sector, the automotive industry is taking leading positions. [4] Companies with foreign capital are much more profitable in Moldova than domestic ones, and accordingly are much more favourable to the government. Consequently, these companies are an important source of economic growth for the Republic of Moldova. Another point to mention is the high productivity, and companies with FDI offer above-average wages, which are found in domestic companies. The average wage of foreign companies was MDL 7,222 per month in 2015, and counting more than 10 000 MDL in 2019. The case of "Dräxlmaier Automotive" [5] can be considered a game-changer for the Moldovan economy due to its major and multilateral contribution to the development of the country, where the company left a long-lasting footprint in such areas as: development of a new sector with a clear competitive advantage; job creation; integration with other industries; contributing to the reform of the educational system; attracting other FDI. Moreover, there are important points to consider if investing in this country [6] such as: skilled and low-cost labour; investor-friendly tax duties; agricultural potential; privatization of a number of companies underway. The Moldovan Investment Agency is the Brand Ambassador of Moldova that is providing tailored services for domestic and foreign investors for promoting and supporting of: exports, tourism, brand image of the country, as well as investment activity and implementation of economic diplomacy.

Next country to be analyzed is Romania, which has registered a FDI Inward flow of $6,2 million in 2018 and $5,9 million in 2019, according to UNCTAD 2020 World Investment Report, (see table 2). The result is composed of : foreign direct investors' equity (including accumulated reinvestment of earnings) and debt transactions of direct investment enterprises.[7] As considered from the FDI stock by main economic activity included in the National Bank of Romania 2018 statement, 41.1 % of FDI stock were channeled to industry, primarily to manufacturing (30.9 % of total FDI stock), out of which the largest recipients were: transport equipment, oil processing, chemical, rubber and plastic products and metallurgy. Other activities that also attracted significant FDI were construction and real estate transactions (16.8 % of FDI stock), trade - 15.8 %, financial intermediation and insurance - 11.5 %. [8] In 2018, the flows of equity capital into FDI enterprises amounted to $ 3,478 million, being divided into: greenfield, mergers and acquisitions, corporate development and corporate restructuring. The breakdown of FDI stock into greenfield enterprises by main economic activity showed that manufacturing was the main recipient, accounting for 28.9 % of total. Other sectors holding a significant share in such investment were construction and real estate transactions - 19.0 %, trade - 17.6 %, and financial intermediation and insurance - 9.3 %.

Table 2. Foreign Direct Investments and their structure in the 2017-2019 period in Romania

Foreign Direct Investments	2017	2018	2019
FDI Inward Flow *(million USD)*	5,419	6,219	5,971
FDI Stock *(million USD)*	90,968	92,887	97,095

Source: UNCTAD

The main assets of the country for attracting foreign investment are [9]: the introduction since its accession to the EU of prudent monetary measures; a relatively low level of public debt and a favorable growth rate; a relatively large domestic market; a qualified and low-cost workforce; a strong agri-food industry (wheat, barley, rapeseed, etc.). Romania has signed bilateral agreements on investments with 96 countries, that's why there are presented a well-defined agenda of Government's Measures to Motivate or Restrict FDI.

The last case to analyse is Ukraine. Foreign direct investment in Ukraine is in constant fluctuation, being largely affected by the state's conflicts with Russia. Following the Euromaidan, the annexation of the Crimea, and the onset of warfare in Donbas, FDI inflows in Ukraine declined drastically, from \$4.5 billion in 2013 to \$410 million in 2014 [10]. Analyzing the last years, we can remark that FDI has increased, but very slowly, being less than half of the value from 2012 as Russian investors have withdrawn much of the assets they previously held [11]. According to UNCTAD's World Investment Report 2020 [12], FDI inflows attained at USD 3,1 billion in 2019, an increase when compared to USD 2,3 billion in 2018 (+30%). FDI stock was about USD 49 billion in 2019, down from USD 53 billion in 2010 (see table 3). The structure of FDI is kept the same as in case of previous 2 countries, the Greenfield Projects amounted at 48 in 2019. The Netherlands and Cyprus are the prime source countries of FDI to Ukraine with 23% and 15% of the inward FDI stock of Ukraine. FDI in Ukraine is unequally distributed across target sectors in the economy. Ukrstat data on target sectors of equity FDI reveals that financial services received the single largest individual share of FDI (29%). Also, there is a large FDI stock of almost 10% of total FDI in real estate. Agriculture, as in the case of other 2 candidates, has received little direct FDI, but FDI stakes in the sector may exist indirectly.

Table 3. Foreign Direct Investments in the 2017-2019 period in Ukraine

Foreign Direct Investments	2017	2018	2019
FDI Inward Flow *(million USD)*	2,601	2,355	3,070
FDI Stock *(million USD)*	43,250	44,338	48,906

Source: Latest available data provided by UNCTAD

Despite the political and economical tensions arond Ukraine, it has several strong points that can boost the investing climate, such as: one of the largest markets in Europe with 47 million consumers; a skilled and inexpensive workforce; a government that seeks to improve the business; an Association Agreement with the EU gives Ukraine preferential market access; a very good education system; a strategic geographical position; well-developed transportation infrastructure (40% of the Russian gas destined to the EU transits through Ukraine); strong international financial support: whether by global institutions (IMF, World Bank or the EU) or through bilateral agreements and abundant natural resources (iron ore and manganese reserves) and a large agricultural industry. In 2020 the government restated that attracting investment is a top priority, providing a reliable agency that works as a one-stop-shop with the investors. [13]

CONCLUSIONS. The outcome of the research has shown the position of Ukraine, Rep. of Moldova and Romania linked by a same structure of analysis. Therefore, the rate of growth of FDI Inflows and stock are higher for Moldova. This fact denotes the Government's ability to attract more FDI, and boosting the economy. In regard to type of equity capital, all countries depend more on Greenfield projects, but far beyond corporate development and corporate restructuring. The FDI, in all 3 countries, is originating from Europe, especially Germany, UK, Netherlands and Cyprus. The structure of FDI by sectors show us the main tendency of foreign capital inflows, and it is mainly oriented towards manufacturing sector in all 3 countries, leaving on the second place the service sector (financial, real estate and IT). In a nutshell, Republic of Moldova, Romania and Ukraine have relatively same business climate and facilities for investors, each of them issuing laws to motivate FDI, furtherly controlled by specific institutions. Despite of the strong points, the corruption and political instability trend is monitored, as being the main factors of reducing the credibility of those countries. Nevertheless, Romania seems the country that could attract the majority of investors, as the consumer market is relatively big, with medium purchasing power. Also, the direct participation as a member of EU could place the point in taking the decision of an investment.

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