MICROECONOMIC FUNDAMENTS OF FOREIGN DIRECT INVESTMENTS CONTAGION EFFECTS: ROMANIA AND EUROPEAN UNION CASE

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Abstract:

The economic systems dynamics does not work "on emptiness", but in the context of real and financial transactions it makes on external environment. Under the context of financial globalization, foreign direct investments form special categories of externalities which depend and influenc e a complex set of variables which are characteristics for reception economy.

The general objective of this study is a double one. Thus, on the one side it analyzes some of the critical determinants of foreign direct investment and, on the other side, it s hows some of the effects they have in case of an emergent economy, like Romania's, respectively at European Union level.

The main result of this study is that foreign direct investments are modulated by the intrinsic characteristics of receptor economies and they matter for the nature and particularities of these features. Also, an analysis of the causes and effects of foreign direct investments which does not take into consideration the structure, functional, institutional and cultural-compartmental characteristics of reference economy are equal to a reference to „ Hamlet without the Prince of Denmark".

Keywords: foreign direct investment, contagion effects

JEL Classification: E22, F21, C22.

1. INTRODUCTION

Foreign direct investments represent a cent ral component of financial flows associated to the contemporary financial globalization processes. A vast theoretical and empirical body shows the positive effects they have over receptor economic systems, via technological and informational transfers, the financial, material and human resources inputs, as well as the relatively stable nature of these inputs, which reduce the financial vulnerability degree of reference economies compared to the possible inversions of real and financial flows in the exterior .

Also, foreign direct investments have great effects of systemic, structural, functional and institutional transformation, and change at a micro level and "short -termed" the macro **cultural-compartmental paradigm** which characterizes the decisions of reside nts contributes to increasing institutional quality in the host -economy and stimulates the real and nominal integration process within regional and international transnational structures.

The general objective of this study is a double one. Thus, on the one side it analyzes some of the critical determinants of foreign direct investment and, on the other side, it shows some of the effects they have in case of an emergent economy, like Romania's, respectively at European Union level.

The study proposes a glob al analytic environment of the foreign direct investments problematic, based on a combination of macro and micro economic factors, an analytic environment which renders the role of the characteristics of the real sector, respectively nominal, labor market and the overall economic politics in attracting and mobilizing them.

The section reaches the conclusion according to which "the reduction of marginal inclination for consumption of the residents/reducing the anticipated level of inflation tensions, increase of efficiency and of current and anticipated "net" income of non-monetary assets, the reduction of anticipation errors level regarding the efficiency of various types of investments and the "aversion to risk", the fiscal policy relaxation, the reduction of the differential of borrowed financial resources cost, the increase of "net" productivity of production factors and the depreciation of local currency, contribute in an non-uniform manner to the increase of foreign direct investments in the reference economy".

2. GENERAL CONCEPTUAL ENVIRONMENT

The analytic environment of the foreign direct investments can be analyzed by combining some of their micro and macro determinants in a unifying environment of a decisional theory.

Thus, the real sector of an "open economy" (which makes real and financial international transactions) can be described in a conventional manner as:

$$Y_t = C_t + IN_t + G_t + EN_t \qquad (1)$$

$$C_t = \sum_{i=1}^{N} co_{it} \left(P^*_{it} \right) Y_t \qquad (2)$$

$$IN_t = INA \left(i_{A_t} - i_{F_t}; w_t; \lambda_t \right) + ISD_t \qquad (3)$$

$$G_t = G \left(i_{A_t} - i_{F_t} \right) \qquad (4)$$

$$EN_t = EN \left(e_t; PE_t \right) \qquad (5)$$

$$P^*_t = \sum_{i=1}^{t-1} \alpha_t P_{t-i} + \beta_t INFO_t \qquad (6)$$

where: Y is the output during the current timeframe, t, IN is the real investments stock performed by residents and non-residents, G is the "net" volume of public expenses and EN represents the current account balance ("net" inputs from "net" exports, "net" services provided by residents in favor of non-residents, "net" labor and capital income, as well as unilateral transfers), C is the final consumption depending on "marginal inclinations to consumption" of each of the N economical entities which form the real sector, who, in their turn, depend on inflation anticipations they formulate these groups, P^* represents the anticipated inflation level in the current timeframe for the following timeframes $t+k$, INA represents the direct investment realized in the reference economy by the residents, investments which depend on $i_{A_t} - i_{F_t}; w_t; \lambda_t$ - the differential between the average cost of borrowed financial resources in the local financial sector, i_A and, respectively, foreign i_F, the dynamics of real average salary, w and, respectively, that of the aggregated average productivity of production factors, λ, ISD represents the foreign direct investments inventory (a "significant" percent - e.g. 10% of an economic entity which is already created or the creation of a new such entity - Greenfield investment), e represents the average weighted of local currency exchange rate compared to the currencies of the main partner economies and PE is an indicator of external competitivity which reflects the position of local economic subjects of exportable goods and allows the discrimination in situations in which they are price takers, respectively, price makers, P is the inflation current level and $INFO$ is an indicator of current information which is available and may influence the formation of inflationist anticipations.

Formula (1) represents a relation to form output by combining final consumption, the investments of residents and non-residents, public expenses and operations with real assets of residents and non-residents. Formula (2) takes into account the non-uniformity of "marginal inclinations to consumption", determined by the different inflationist anticipations the various groups of economic subjects groups formulate. More precisely, according to these anticipations,

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each group realizes a self-classification of resources between current and further consumption. Formula (3) identifies some of the key variables of the investments of residents in the reference economy: the differential of the borrowed financial resources between the local and foreign financial sector (financing argument) and, respectively, the real income and "net" productivity of production factors (resources financing argument). At the same time, foreign direct investments are, in this stage of modeling, described by a "black box", the objective of the model being to "solve" the functional relationships which relate the other variables.

Public expenses are described by the formula (4) as being sensitive compared to the differential of financial resources costs. We should mention that it's not only the classification of public debts in "internal" and "external" components which finance the public expenses surplus, but also its absolute level. It implies as hypothesis the fact that the fiscal authority confronts itself with a "strong" budget restriction, and the supposition of some connections between the allocation of some public financial resources and the costs differential associated to them is not justified.

"Net" export depend on the real exchange rate, as well as on the exportable go ods market conditions. The changes effects in the exchange rate are mediated by the residents' capacity to influence these conditions. The more it is reduced, the more rigid are "net" exports compared to the exchange rate.

The way the inflation anticipations are born is described within a model of limited rationality: when the available information is "imperfect" (incomplete, non -uniformly distributed and costly) the "rational" economical entities form their anticipations by taking into consideration information from precedent times, as well as the total amount of current relevant information available. Parameters α, β reflect the past and current information relative importance, importance which changes across time (for example, according to the anticipation errors made in previous times).

From the combination of formulas (1)-(6) it results that the social output is determined as in formula (7).

According to this formula, the output depends on inflation anticipations, the relative cost of borrowed financial results, the "net" performance of production factors, the exchange rate and the conditions on the exportable markets goods.

At the same time, at a "micro-economic" level, the output formation depends on the decisions made by individual economic entities. A fertile description environment of these decision mechanisms is represented by the paradigm of adopting decisions within some multi -periodic optimization processes of the structure of owned patrimonies.

$$ Y_t = \frac{1}{1 - \sum_{i=1}^{N} co_{it} \left(\sum_{i=1}^{t-1} {}_t P_{t-i} + {}_t INFO {}_t \right)} \left[\begin{array}{l} INA \left(i_{A_t} - i_{F_t}; w_t; {}_t \right) + ISD {}_t + \\ + G \left(i_{A_t} - i_{F_t} \right) + EN(e_{t}; PE_t) \end{array} \right] \quad (7) $$

More precisely, we can assume that the economic system is formed by din N economic subjects, each group having its individual utility function. Each group structures its patrimonies by simultaneous incorporation of M classes of monetary financial assets classes and Q classes of non-monetary assets (financial and real). In this structuring process, the incorporation is made by taking into consideration the budget restriction and looks after "balancing" the report **efficiency/risk** associated to a certain chosen patrimony structure, structure whose "optimal" nature is tried to be kept during more patrimony management timeframe in order to minimize structural adjustment costs. Thus, the optimization problem takes into c onsideration current and anticipated costs of non-monetary assets, the current and anticipated available income from labor and capital, as well as the treasury ones during previous ones, as well as efficiencies and risks related to owing certain types of assets.

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The difference between various types of economic subjects are reflected by the particular manner in which within their individual function the **efficiency/risk** report is weighted in order to take into consideration the specific "risk profile".

Under these circumstances, the optimization problem is formed by:

- A logical restriction – the non-negativity restriction and of unitary amount of weights in the patrimonies structure, by non-monetary assets;
- A budget restriction – the restriction of classifying acquisition expenses, owing and using non-monetary assets and, respectively of acquisition, management and use of available information which allow the formation of anticipations related to costs, income, efficiencies and related risks, as well as the expe nses for making "Monetary balances" (of cash inventory) in view of available income in the current timeframe and treasured by previous timeframes;
- A function-objective, reflecting the purpose of patrimony structure, i.e. of "balancing" the **efficiency/risk** report;
- A mechanism of forming anticipations – which describes the way in which in limited rationality conditions, the relevant anticipations of economic subjects are formed by taking into consideration all available information during current and previous timeframes.

From a formal point of view, the optimization problem can be describes as:

$$x_{ijt} \geq 0, \quad \sum_{j=1}^{S} \sum_{i=1}^{N} x_{ijt} = 1, \forall (j, t) \quad (8)$$

$$\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(c_{ijk} + c^*_{ijk+1} \right) x_{ijk} + \sum_{j=1}^{S} \sum_{p=1}^{M} \sum_{k=1}^{t} \left(L_{pk} + L^*_{pk+1} \right) = \sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t} \left(Y_{jzk} + Y^*_{jzk+1} \right) \quad (9)$$

$$\frac{\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(\eta_{ijk} + \eta^*_{ijk+1} \right) x_{ijk}}{\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(R_{ijk} + R^*_{ijk+1} \right) x_{ijk}} \rightarrow MAX \quad (10)$$

$$\sum_{j=1}^{S} E \left(*_{k+1} \right) = \sum_{j=1}^{S} \left(\sum_{k=1}^{t} \eta_{kj} *_{k} + \eta_{tj} *_{t} \right) \quad (11)$$

where:

x is the weight of non-monetary asset i in the patrimony structure during the current timeframe t, N is the total number of non-monetary assets in the selection universe, c are the costs related to owing, managing and using non-monetary assets, as well as informing about them, L represent the monetary and "partially monetary" assets with a higher liquidity rate, Y are labor and capital income obtained during current times of treasured from previous ones, η represent efficiencies associated to non-monetary assets generated by monetary flows or the market prices variations, R sub-summed risks of owing and using these assets and * shows the anticipated levels of the assets involved, the anticipations formed during the current t imeframe for l future timeframes.

This description of the optimization problem means that:

- Each group of economic subjects tries to keep <u>in a systematic manner</u> an "optimum" structure of the owned patrimony. Thus, if in the current timefr ame this structure becomes "sub-optimal" for various reasons a "re -formulation" of the optimization problems will result, which will generate transactions with monetary and non -monetary assets;
- To minimize structural adjustment costs, a structure once sele cted should remain "sustainable" for a certain number of future timeframes;

- The optimal level of "monetary balances" (payment methods and liquid exchange means inventories) is obtained <u>simultaneously</u> with the level of non-monetary assets owing. In other words, it is considered that the treasuring generated by prudence and specula does not have a "residual" nature;
- Function-objective means a balance between **efficiency** and **risk**, so that the economic agents can be described as neutral to risk. Thus, they are ready to accept a higher risk level compared to subjects with maximum aversion towards risk, respectively an inferior efficiency compared to subjects with maximum indifference towards risk. This hypothesis can be critical for model viability if this means a simple description of the "average economic subject", but also an autonomous hypothesis about risk social acceptance mechanisms: at <u>aggregated</u> level there are no "casino" economies, nor "pensioners" economies.

A particular aspect is represented by the way the concept of "risk" is defined. Thus, in portfolio management post-modern theories, there is a distinction between "risks", respectively "uncertainty". **Risk represents the probability of registering a non-favorable result by adopting an economic decision (including the decision of structuring patrimony). By "unfavorable result" we understand any inferior result to the "level-target" result, determined in an "objective" manner (according to the results of the previously made decisions, by sector or macro-economic performances, competition performances, other micro or macro economic variables - e.g. passive interest rate, inflation rate, the efficiency of a representative amount of the capital market) or a "subjective" one.** At the same time, **uncertainty represents the efficiency deviation probability from its target level, regardless of the direction of this deviation.**

Thus defined, "uncertainty" is a broader concept than "risk" which it sub-sums, including the case in which efficiency is superior to its target level. If economic subjects are considered preoccupied by "risk" in the first place, but take into account to a certain level the "uncertainty", then, compared to the decision efficiency level compared to the target-level, three areas of "risk-uncertainty" can be identified:

- **Area I:** the obtained effective decision efficiency is positive, but inferior to the target-level (risk area I);
- **Area II:** the decision efficiency is negative (risk area II);
- **Area III:** the decision efficiency is positive, but higher than the target-level.

Area I and II form the "risk area" together. All three areas reflect uncertainty situations. Of course, between the two risk areas, there are some differences: the economic subjects will not perceive the risk manifestation similarly if the decision efficiency is inferior to the target-level, but "positive" with those in which they register a loss as a result of adopting a certain decision.

Under these circumstances, a risk quantification methodology which would take into account the existing distinctions between the three areas could mean certain stages:

1. The construction of a set of "risk values array" r_{jt} in conformity with the following rules:

$$r_{jt} = \begin{cases} m1^* \left(target_j - {}_{jt} \right) \; d\,aca \quad target_j > {}_{jt} \; s\,i \quad {}_{jt} > 0 \\ m2 \; * \; \left(target_j - {}_{jt} \right), \; d\,aca \quad {}_{jt} < 0 \\ m3 \; * \; \left({}_{jt} - target_j \right), \; d\,aca \quad target_j < {}_{jt} \\ c\,u \quad m2 \; > \; m1 \; > \; m3 \end{cases} \qquad (12)$$

2. Determining a global risk measure for the reference timeframe as being the Euclid norm of the "risk values array":

$$R_{jt} = \sqrt{r^2{}_{j1} + r^2{}_{j2} + ...r^2{}_{jt}} = \sqrt{\sum_{k=1}^{t} m_m \left| target_j - {}_{jk} \right|} \; , m = 1,2,3 \qquad (13)$$

On the basis of the specified methodology of estimating risk level, the optimization problem can be re-written:

$$x_{ijt} \geq 0, \quad \sum_{j=1}^{S} \sum_{i=1}^{N} x_{ijt} = 1, \; \forall \; (j, t) \quad (8)$$

$$\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(c_{ijk} + c^{*}_{ijk+l} \right) x_{ijk} + \sum_{j=1}^{S} \sum_{p=1}^{M} \sum_{k=1}^{t} \left(L_{pk} + L^{*}_{pk+l} \right) = \sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t} \left(Y_{jzk} + Y^{*}_{jzk+l} \right) \quad (9)$$

$$\frac{\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left({}_{ijk} + {}^{*}_{ijk+l} \right) x_{ijk}}{\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(m_{m} \left| target_{ji} - {}_{jik} \right| + m_{m} \left| target_{ji} - {}^{*}_{jik+l} \right| \right) x_{ijk}} \rightarrow MAX \quad (10.1)$$

$$\sum_{j=1}^{S} E \left({}^{*}_{k+l} \right) = \sum_{j=1}^{S} \left(\sum_{k=1}^{t} {}_{kj} {}^{*}_{k} + {}_{tj} {}^{*}_{t} \right) \quad (11)$$

We can observe that the variables included in the optimization problem are susceptible to be influenced not only by the characteristics of their formation sectors, but also to the nature, mechanisms and economic policies instruments, applied to the reference economy. Thus, the fiscal policy is ready to:
- Influence the acquisition cost of non-monetary assets, especially be means of the volume and structure of indirect taxes;
- Influence the anticipations of economic subjects referring to their further income and available expense, the level and structure of treasuring and the report **efficiency/risk** especially be means of direct taxes;
- Influence the anticipations of economic subjects referring to further income and expenses as a result of the transfer and re-classification of social resources realized by means of "net" public expenses;
- It is also capable to influence the general optimization problem rising by means of the "credibility bonus" which results from reaching and maintaining fiscal consolidation.

Thus, the optimization problem can be re-written to take into account various types of effects induced by the fiscal policy, for example:

$$x_{ijt} \geq 0, \quad \sum_{j=1}^{S} \sum_{i=1}^{N} x_{ijt} = 1, \; \forall \; (j, t) \quad (8)$$

$$\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(c_{ijk} \left(I_{k} \right) + c^{*}_{ijk+l} \left(I^{*}_{k+l} \right) \right) x_{ijk} + \sum_{j=1}^{S} \sum_{p=1}^{M} \sum_{k=1}^{t} \left(L_{pk} + L^{*}_{pk+l} \right) =$$

$$= \sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t} \left(Y_{jzk} \left(D_{k}, P_{k}, A_{k}, PE_{k} \right) + Y^{*}_{jzk+l} \left(D^{*}_{k+l}, P^{*}_{k+l}, A^{*}_{k+l}, PE^{*}_{k+l} \right) \right) \quad (9.1)$$

$$\frac{\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left({}_{ijk} \left(D_{k}, I_{k} \right) + {}^{*}_{ijk+l} \left(D^{*}_{k+l}, I^{*}_{k+l} \right) \right) x_{ijk}}{\sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(m_{m} \left| target_{ji} - {}_{jik} \left(D_{k}, I_{k} \right) \right| + m_{m} \left| target_{ji} - {}^{*}_{jik+l} \left(D^{*}_{k+l}, I^{*}_{k+l} \right) \right| \right) x_{ijk}} \rightarrow MAX \quad (10.2.)$$

$$\sum_{j=1}^{S} E \left({}^{*}_{k+l} \right) = \sum_{j=1}^{S} \left(\sum_{k=1}^{t} {}_{kj} \left(BD_{k} \right) {}^{*}_{k} + {}_{tj} {}^{*}_{t} \right) \quad (11.1.)$$

where, additional to the previous notations:

D is a parameter of direct taxation (such as fiscal pressure calcula ted on the basis of this type of taxation), I describes indirect taxation, A is associated to social re -distribution of income, PE are "gross" public expenses and BD is the general consolidated budget.

By combining this form of the optimization problem with the income formation mechanism described by formula (7) it results that:

$$\sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t} \left(Y_{jzk} \left(D_k, P_k, A_k, PE_k \right) \right) =$$

$$= \sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(c_{ijk}\left(I_k\right) + c^*_{ijk+1}\left(I^*_{k+1}\right) \right) k^o{}_{ijk} \left(\begin{array}{c} m\,m \left|target_{ji} - _{jik}\left(D_k, I_k\right)\right| + m\,m \left|target_{ji} - {}^*_{jik+1}\left(D^*_{k+1}, I^*_{k+1}\right)\right|, \\ D_k, P_k, A_k, PE_k, BD_k \end{array} \right) \quad (14)$$

$$+ \sum_{j=1}^{S} \sum_{p=1}^{M} \sum_{k=1}^{t} \left(L_{pk} + L^*_{pk+1} \right) - \sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t} Y^*_{jzk+1}\left(D^*_{k+1}, P^*_{k+1}, A^*_{k+1}, PE^*_{k+1}\right)$$

From formula (14) it results that:

$$\frac{\delta\left(\sum_{j=1}^{S}\sum_{z=1}^{Q} Y_{jzt}\right)}{\delta D_t} + \frac{\delta\left(\sum_{j=1}^{S}\sum_{z=1}^{Q} Y_{jzt}\right)}{\delta P_t} + \frac{\delta\left(\sum_{j=1}^{S}\sum_{z=1}^{Q} Y_{jzt}\right)}{\delta A_t} + \frac{\delta\left(\sum_{j=1}^{S}\sum_{z=1}^{Q} Y_{jzt}\right)}{\delta PE_t} =$$

$$= \sum_{j=1}^{S} \sum_{i=1}^{N} \sum_{k=1}^{t} \left(c_{ijk}\left(I_k\right) + c^*_{ijk+1}\left(I^*_{k+1}\right) \right) k^o{}_{ijk} \left(\begin{array}{c} m\,m \left|target_{ji} - _{jik}\left(D_k, I_k\right)\right| + m\,m \left|target_{ji} - {}^*_{jik+1}\left(D^*_{k+1}, I^*_{k+1}\right)\right|, \\ D_k, P_k, A_k, PE_k, BD_k \end{array} \right) \quad \dots\dots(15)$$

$$+ \sum_{j=1}^{S} \sum_{p=1}^{M} \sum_{k=1}^{t} \left(L_{pk} + L^*_{pk+1} \right) - \sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t} Y^*_{jzk+1}\left(D^*_{k+1}, P^*_{k+1}, A^*_{k+1}, PE^*_{k+1}\right) -$$

$$- \sum_{j=1}^{S} \sum_{z=1}^{Q} \sum_{k=1}^{t-1} \left(Y_{jzk}\left(D_k, P_k, A_k, PE_k\right) \right)$$

Formula (15) allows the outlining of some determining factors of foreign direct investments by "extracting" them in the following formula:

$$ISD_t = \frac{1}{1 - \sum_{i=1}^{N} co_{it}\left(\sum_{i=1}^{t-1} {}_t P_{t-i} + {}_t INFO_t\right)} \left[\begin{array}{c} \sum_{j=1}^{S}\sum_{i=1}^{N}\sum_{k=1}^{t}\left(\begin{array}{c} c_{ijk}\left(I_k\right)+ \\ +c^*_{ijk+1}\left(I^*_{k+1}\right) \end{array} \right) x^o{}_{ijk} \left(\begin{array}{c} m\,m\left|target_{ji} - _{jik}\left(D_k,I_k\right)\right| + \\ + m\,m\left|target_{ji} - {}^*_{jik+1}\left(D^*_{k+1},I^*_{k+1}\right)\right|, \\ D_k, P_k, A_k, PE_k, BD_k \end{array} \right) \\ + \sum_{j=1}^{S}\sum_{p=1}^{M}\sum_{k=1}^{t}\left(L_{pk}+L^*_{pk+1}\right) - \sum_{j=1}^{S}\sum_{z=1}^{Q}\sum_{k=1}^{t} Y^*_{jzk+1}\left(D^*_{k+1},P^*_{k+1},A^*_{k+1},PE^*_{k+1}\right) - \\ - \sum_{j=1}^{S}\sum_{z=1}^{Q}\sum_{k=1}^{t-1}\left(Y_{jzk}\left(D_k,P_k,A_k,PE_k\right)\right) \end{array} \right] -$$

$$- INA\left(i_{A_t} - i_{F_t}; w_t; {}_t\right) - G\left(i_{A_t} - i_{F_t}\right) - EN(e_t; PE_t) \quad (16)$$

According to formula (16), the foreign direct investments flows depend on:
- Marginal inclinations to consumption of various categories of economical subjects in the reference economy;
- Their inflation anticipations, formulated under "imperfect information" conditions;
- Costs, income and efficiencies, current and anticipated of various categories of non - monetary assets;

- Anticipation errors regarding investments efficiencies in various real and financial non - monetary assets, as well as the "risk profile" of various categories of resident economic subjects;
- The fiscal policy and its defining elements (fiscal pre ssure associated to various types of taxations and public expenses);
- The costs differential of borrowed financial resources;
- Productivity and associated costs of production factors;
- Real exchange rate.

More precisely:

C_0: The reduction of marginal inclination for consumption of the residents/reducing the anticipated level of inflation tensions, increase of efficiency and of current and anticipated "net" income of non-monetary assets, the reduction of anticipation errors level regarding the efficiency of various types of investments and the "aversion to risk", the fiscal policy relaxation, the reduction of the differential of borrowed financial resources cost, the increase of "net" productivity of production factors and the depreciation of lo cal currency, contribute in an non -uniform manner to the increase of foreign direct investments in the reference economy".

3. AN EMPIRIC ANALYSIS – EU 25 CASE

Testing the impact of foreign direct investments over economic growth (1) can be done in the analytical environment described in the previous section based on a "two steps" testing strategy: 1) testing existing connections between the dynamics of some "critical" macro -economic variables for economic growth and, respectively, 2) testing the impact o f net inflows of foreign financial resources, of technology, expertise and cultural paradigm over these variables.
1) The list of variables associated to economic growth can include:
   - Variables formed on the labor market (unemployment rate, nominal/real salary rate);
   - Variables formed in the economy real sector (inflation rate);
   - Institutional variables;
   - Synthetic variables for external of an "open economy" (for example the inflation rate in economic systems which represents major business partners for the refere nce economy).
2) The analysis of the impact of foreign direct investment over these macro -variables concretizes an analytical measure which targets the identification of some transmission channels of level, structures and foreign investments characteristics i n the real economy sector over internal output.

We need to observe the fact that this type of "two steps" approach has as central purpose the fact that the general advanced analytical environment cannot provide a sufficiently strong argumentation to take into consideration some direct effects of foreign direct investments over output. More precisely, a method cannot be provided to separate these effects from the according effects of local foreign investments (in other words, the objection according to which foreign direct investment have an eviction compared to the internal ones; providing an argumentation to focalize on the transfer of information goods and on the local "cultural paradigm contamination" exceeds the purpose of this analysis). Evidently we can use the classical "black box" method: we can argue that there is not the possibility of a priori discrimination between quantitative and qualitative of foreign and local investments and that this is mainly an empiric problem. Such solution is not satisfactory for building an explaining environment and, moreover, if it has certain viability for the quantitative effects is not sustainable in the existence of qualitative effects.

To illustrate the potential of such approach, we performed an analysis on the E U 25 case for the timeframe 2000-2007.

The vectors of the endogen variables involved can be shown from a formal point of view as follows:

$$Y_{1it} = \beta_{1t}^1 X_{1it}^1 + \beta_{1t}^2 X_{1t}^2 + \varepsilon_{1it} \quad (17)$$

$$Y_{2it} = \beta_{2t}^1 ISD_{it} + \varepsilon_{2it} \quad (18)$$

where: Y_{1it} represents the investment dynamics of internal output in the econom ic system i in the timeframe t, X_1^1 represents hexogen "market" selected to explain this dynamics, X_1^2 the institutional aspects of the economic environment evolution, Y_{2it} is an endogen vector of selected explicative variables and ISD_{it} represent "net" flows of FDI.

In conformity with the obtained results, which are not reported here, but available upon authors request:

- Making an adjustment on the labor ma rket contributes to accelerating the social output dynamics;
- Ensuring financial stability by ensuring prices stability measured on the basis of the Harmonized Index of Consumption prices has a favorable impact over economic growth;
- The increase of the inf lation rate in the main partner economies leads to increasing external competitivity of real exportable external assets produced in the European Union;
- The factors with the most ample explaining potential are associated to financial stability and labor market adjustments;
- "Direct" impact exercised by foreign direct investments over economic growth is non - uniform and important discrepancies in case of "old" member and, respectively "new" of the Union. Thus, the results show that this impact has the clear mark and is significantly more pronounced for new members compared to some of the "nucleus economies".
  Also:
- The non-uniformity of effects of FDI over the determining factors of economic growth characterize the significance level and can be shown for each of t hese;
- The difference of induced effects can be maintained in case of testing these connections between new and old state members of the Union.

4. FINAL ASPECTS

The results of this study over the determinants of the exercised effects of FDI can be thus synthesized:

- At the basis of these investments there is a series of variables which characterized the host-economy from a structural, functional, institutional and compartmental way, variables which are located in the real and nominal sector, in the global economic policy and within the specific **cultural paradigm;**
- The sector impact of FDI in Romania is not equal and marks an insufficient level of convergence. Also, it can be observed a manifestation of a certain modification of the investment pattern without marking a clear orientation of the politics and mechanisms to attract and stabilize these investments;
- The direct and indirect effects of FDI at the European Union level are non -uniform with a relatively net differentiation between old and new state membe rs as an expression of the unequal degree of economical and financial integration.

The relevance of these conclusions with a partially inevitable nature is dependant on the analytical environment viability. But, taking into consideration the reserves that can be formulated over one or another component of the methodology, we can conclude that, at least on a "long -term"

the FDI impact over the host-economy is critically modulated by the market, institutions, mechanisms and behaviors quality characterizing it.

NOTES:

(1) We use "economic growth" and not "durable economic development" because the construction of an analytical environment to take into consideration this last concept leads to an additional complication of providing a description of the mechanisms which ensure the persistence of the FDI induced effects .

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