

## INVESTMENT AND ECONOMIC REVIVAL

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**ABSTRACT:** A SPECIAL IMPORTANCE IS GRANTED TO THE ROLE OF INVESTMENTS IN THE STRATEGY OF RESTRUCTURING PRODUCTION CAPACITIES.

TWO TRENDS CAN BE OUTLINED IN THE INVESTMENT ACTIVITY: AN INVESTMENT TO PRODUCE BETTER AND AN INVESTMENT TO SURVIVE. THE PRACTICE SHOWS THE IMPORTANT WAY INVESTMENTS HAVE IN SUSTAINING CERTAIN ACTIVE STRATEGIES OF ENTERPRISES: MANUFACTURING NEW PRODUCTS, CONQUERING NEW MARKETS, ACCENTUATED SPECIALIZATION, AND RAPID ADAPTATION TO THE CUSTOMER'S REQUIREMENTS. PROMOTING THESE STRATEGIES GIVES FAR GREATER CHANCES THAN THOSE COMPANIES THAT ONLY SEEK TO REDUCE COSTS, PRODUCING THE SAME PRODUCT.

THE INTEREST OF THE ECONOMIC AGENTS IS TO IMPOSE AND TO CONSOLIDATE THE POSITION ON THE MARKET, TO ANALYZE OFFENSIVE COMPONENTS OF THE INVESTMENT STRATEGY IN ORDER TO RESTRUCTURE THE PRODUCTION CAPACITIES AND THE PERMANENCE OF ADAPTING TO THE DEMAND AND SUPPLY MECHANISM.

IT IS INTENDED TO PROMOTE AN INVESTMENT POLICY IN ALL COUNTRIES, AND THE PERFORMANCE OF EFFICIENT INVESTMENTS IS AN ESSENTIAL PROBLEM IN THE PROCESS OF ECONOMIC GROWTH FOR ROMANIA.

**KEY WORDS:** INVESTMENT, ECONOMIC GROWTH, MARKET, CUSTOMERS, STRATEGY.

### Introduction

The notion of investment has two spheres of coverage. The broader sphere is represented by the financial investments, which essentially consist of any capital investment in order to obtain a certain profit. The purchase of shares or other securities, placements of money in banks, allocation of funds for business start-ups - in order to obtain dividends, interest and profits, respectively - means financial investments. The narrow sphere refers to the acquisition of new fixed assets and is called capital investments. It is understandable that the first sphere contains the second, but usually, the financial investments refer to the exemplary capital investments. The capital investments take place in the real economy as well as in the social-cultural fields, constituting the material support of the economic growth and the development of socio-cultural activities in any country in the world.

Capital investment should be understood not only to build new objectives but also to modernize the existing ones. In the field of real economy, our country does not need new objectives, but rather the modernization of the existing ones. The policy of attracting foreign

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capital is aimed at modernizing the existing enterprises, which have aging machinery that cannot cope with the current economic competition and the consumption requirements of the population.

Almost never, a new investment does not exactly reproduce an earlier investment. Conversely, it can be said that any investment brings something new. The investments are propagators of new, their own novelty character, they always bring the change of the existing situation, appearance of other elements than those previously known. The investments always engage the future, from which the characteristic of associating an important risk factor to any investment process flows<sup>2</sup>.

### **Investments and economic growth**

The investments of an economic agent may be made in their own country or in foreign countries. The problem can also put like this: the investments in a country have internal sources and attracted sources. We can say that the investment process has endogenous and exogenous determinations. The situations resulting from the combination of two sources are what in our country are called mixed investments. Separately, the foreign economic agents can realize own investments in our country, without Romanian participation. In our country, three types of investments can be made:

- 1) our own investments, Romanian, let us call them autochthonous;
- 2) mixed investments, with Romanian and foreign capital;
- 3) foreign investments with foreign capital.

The correlation between investments and economic growth is the type of double bonds: on the one hand, the investments influence the economic growth through their volume, and on the other, the economic growth is influenced by the quality of the investments made, which is reflected in the economic efficiency of the investments. As it is known, the main purpose of the banking system is to allocate the available resources of the company as efficiently as possible. In this way, the borrowed capitals bring maximum profit to those who own them. The events in recent years in our country show that the depositors' money were not managed with the necessary care and responsibility, for which reason the risk grew considerably, the losses of the banks became very high, in some cases existing even the danger of bankruptcy. In this field, the most significant aspects are in the hands of the bank managers and investment management in the real economy.

The investments are a very sensitive field of human activity. The orientation of money funds towards certain objectives is made according to needs, but also by the trends existing worldwide, by the state of the economy, by the consumers' desires, even by the fashion, reasons for which the investments must always be treated with the greatest attention of the entrepreneur.

The investments directly or indirectly affect the economic growth. As tomorrow depends on today, so the future of company depends on the present investments.

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<sup>2</sup> E.G. Lim, “Determinants of, and the relation between, foreign direct investment and growth: a summary of the recent literature”, IMF Working papers, 2001

The investments are the main path to economic growth and the realization of a modern structure of the production branches. The economic development of our country is ensured through investments<sup>3</sup>.

The creation and improvement of the technical and material basis of all branches and sectors of the national economy were ensured, first of all, through investments. The manifestation of the role of investments in this direction resulted within certain convergent processes: the industrialization of the country, the social development of the counties and localities of the country.

Secondly, the quantitative side of the tangible assets is not the only one to be achieved by means of investments, but the qualitative increase of these through improvement and modernization is ensured. Both in the case of investments for new objectives, as well as for development, modernization, it is necessary to ensure a high quality of machinery, aggregates and equipment.

Thirdly, through their volume and orientation, investments have the role of ensuring the superior capitalization of the natural and labor resources. It is worth mentioning the desideratum of the superior capitalization of the country's natural resources, the protection of the environment and of the deficient natural resources, which are hard to regenerate (ores, forestry resources, hydrocarbons, etc.), the increase of the degree of processing the products.

Fourthly, the investments are a lever in ensuring the territorial distribution of the production forces. The manifestation of the role of investments on this line is even more justified if we consider that our country has inherited a non-rational territorial distribution of the production apparatus.

Fifth, it is remarkable that investment plays a role in creating new jobs and ensuring the use of the active population's growth in relation to the dynamic requirements of some of the branches and sub-branches of the national economy. The role of investment in the international division of labor is also required.

Investments have a determining role in the economic growth and justify the need to develop an “investment theory” integrated into the theory of the economic growth. Several arguments can be put forward in this respect.

First, in terms of the investment theory. Admitting the view that the investment is a decision-making act that involves spending certain resources and economic results obtained on account of an act, the conclusion of the unity of purpose with the theory of economic growth is reached.

Secondly, the development of the investment process is time-related (the pre-decision period, the realization period and the period of operation), the effect of the investment is a multiplier of the spent resources that is felt in the economic development over a long perspective.

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<sup>3</sup> J.I.Choe, “Do foreign direct investment and gross domestic investment promote economic growth?”, Review of Development Economics, 7(1), 2003, pp. 44-57

Thirdly, the realization and functioning of the investment objectives cannot be separated from the problems of labor resources, the technical progress incorporated in the fixed created funds, of the foreign trade exchanges, which represent concerns of the theory of economic growth<sup>4</sup>.

From the perspective of these arguments, it can be admitted that the theory of investments is part of the theory of economic growth. But there are other reasons that lead to the need for a separate approach to the two theories. For example, the fact that the investment theory may better analyze certain specific aspects that would complicate the theory of the economic growth, such as those regarding the process of transforming the productive investments into fixed assets, the economic duration of fixed assets, the decommissioning due to physical and moral wear and tear, depreciation of the fixed assets, the activity related to the export of investments, etc.

The theory of investments prolongs the theory of the economic growth in the microeconomic space and takes into account the specific aspects of the production objectives, knowing that each of them is a particular problem at least as regards the localization on the national territory and the location within the localities, the sources of raw materials, the destination of production, the technology used.

In the macroeconomic space, the theory of investments is concerned firstly with the primary formation and distribution of investment volumes, as a result of optimizing the correlation between accumulation and consumption, then the realization in time and the efficiency of the use of fixed funds, which determines in the last instance, the rhythms of growth of the national income.

At the level of the production units, the theory of investments may focus on the issues related to their duration, the replacement of machinery and technology, economic efficiency in the use of labor force, fixed assets, and capitalization of the raw materials.

The theory of investments will have to analyze the evolution of the concept of investment in its modern sense<sup>5</sup>. This concerns not only the definition of the investment activity, the purpose of which is to study, choose, conceive and realize investment goods, but also to prolong it until the economic results are achieved. In this respect, it is necessary to give a special position to the investments made abroad within the cooperation actions. The modern sense of the investment concept also means that investment expenditure does not only create physical objects intended to increase the material production or living standards. It can be admitted that the expenditures for applied scientific research, as well as the introduction of its results in the economic activity, are investments. There is the opinion that expenditures on staff training, on improving professional training, or even on maintaining health, is a type of investment.

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<sup>4</sup> E. Borensztein, J. DeGregorio, JW.Lee, “How does Foreign Investment Affect Growth?”, Journal of International Economics, 1988

<sup>5</sup> P. Misztal, “Foreign direct investments as a factor for economic growth in Romania), Review of Economic and Business Studies, Issue 1, June, 2010

The theory of investments will need to propose new methods and new indicators to analyze the effectiveness of investment objectives over a prolonged period of time, requiring the use of time-based transfer techniques for the calculation values through update coefficients<sup>6</sup>.

In our country, the interest represented by the improvement of the concept of economic growth and the shaping of a theory of investments is related to the following aspects:

a) the increase of the importance of economic decisions, especially the investment ones, by increasing the material and financial employed means, by their implications on other sectors of the economy and by the fact that they engage us for a long time. Thus there is a risk that an investment decision that does not fit into an economic strategy and does not take into account the factors generating internal or international changes may, after a few years, end up in a situation of inefficiency, although the economic analysis at the time of taking the decision has favorable conclusions. From this point of view, the theory of investments needs to provide elements showing the probability that the investment will remain effective for a longer period of time and allow its contribution to economic growth to be appreciated during this period;

b) the ever-growing evolution of science and technology that inherently leads to accelerated moral wear and tear of the fixed assets, makes necessary a theory of investment that values the economic implications of the technical progress on the production objectives to be achieved in a particular period;

c) the amplification and diversification of the international economic exchanges as well as the opportunity to efficiently use the possibilities of cooperation with other countries;

d) improving the methods for correlating the investment decisions with the major economic growth objectives and shaping the options to achieve these goals with the lowest labor costs.

The theory of economic growth aims to analyze and highlight the main relationships between the growth factors that determine the economic evolution over a long period, the theory of investments has as a goal in the economic growth and closely linked to it to establish the basic relationships highlighting the contribution volume, structure and efficiency of the investments, on the economic growth.

In the system of the national economy, investments are an accelerator that has the role of multiplying the inputs of material and labor resources, thus increasing outputs from the system. Thus, the investments occupy a strategic place in the system of the factors conditioning the economic development of a country. That is why investments are the main means by which the economic growth is achieved.

The economy is increasingly confronted with the technical-scientific implications, whose “products” require important investment funds for their application in production. Mechanization, automation, robotisation, and cybernetization of production cannot become reality unless the company spends significant investment funds.

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<sup>6</sup> OECD “Foreign Direct Investment and the Environment: An Overview of the Literature”, available at:

<http://www1.oecd.org/daf/mai/pdf/ng/ng9733r1e.pdf> 1999

For the developing countries, investments should be seen as the only factor that can help reduce the gap with the world's advanced economies. Only through the adequate use of the investment resources can new jobs be created, the gross national product per capita can be increased, the productivity of labor can be increased and, on this basis, the quality of the people's life. Neither the country's internal gaps, between branches, areas can be eliminated and diminished without capitalizing of the local, natural and labor resources, creating new economic objectives, all possible only by allocating investment funds<sup>7</sup>.

On the other hand, investments are a major factor in the modernization of the structure of the national economy, since all the changes that are made in the technological and technical-economic structure, the possibility of the economy to keep up with the technical-scientific requirements are conditioned by investments. Investments are also an important qualitative factor, intensive of the modernization of structure of the national economy.

The investments are mostly an extensive factor of economic growth, which obliges us to consider it in close interdependence with the intensive factors, with those that determine the increase of economic efficiency of the resources occupied in the system of the national economy. It is necessary to increase the national income both extensively (new investments), but especially on an intensive path (increase of labor productivity, reduction of the material expenses, etc.).

The influence of investments on the economic development is conditioned by the structure of the tangible assets in which they materializes. It is the share of the active elements of the fixed-machine tools, machinery and plants - through which the technological process is carried out; the higher this percentage is, the higher their economic efficiency is, as a rule.

Achieving dynamic and balanced economic growth depends largely on widening our own raw materials base, attracting new natural resources into the economic circuit, superior processing and efficiency of all national resources.

The development and diversification of service provision, scientific research, health care, improvement of living conditions, expansion of the commercial network, as well as the social-cultural facilities, in line with the increasing demands of the population, require investment. This is because for all of the listed activities must be first developed and upgraded the material basis, which is unrealistic without investment.

The economic growth in all countries has brought about and brings about many views, as well as patterns regarding the same economic growth. Among the factors influencing the level of this growth can be mentioned: the human potential, the volume and the quality of the fixed and circulating capital, the existing and attracted natural resources in the economic circuit, the technical and scientific progress, the level of organization of production and labor, the efficiency of the foreign trade and the allocated and achieved investments<sup>8</sup>.

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<sup>7</sup> R. Zaharia, D. Vintilă, “Foreign direct investements and economic growth in Romania”, Business and Management, 2012.

<sup>8</sup> S. Stancu, Econometrie. Teorie si aplicații utilizând EViews, Editura ASE, București, 2011

The economic growth and prosperity of a country essentially depend on the expansion of the invested capital, as demonstrated by the impetuous development of the United States. The US economy growth ratio was based on the fact that the investments accounted for 21% of the gross national product (GNP), with 28% peaks in the prosperity periods, while in times of war or crisis, the share of investments declined considerably. The role of the investments in market economy conditions starts from the end of the investments, meaning that these investments represent the increase of a portfolio of assets with the two components:

- fixed assets that can be incorporated (buildings, machinery, etc.), unincorporated (patents, technologies, software) and financial (shares, bonds, other securities), with long service life;
- current assets that are needed for current operations and are therefore subject to a rapid rotation, referring to material stocks and receivables on customers, but also to debt-related production.

There is the problem of the technical innovation in all branches and sectors of the national economy, but this renewal means internal and external financial efforts, which must be sustained based on the current domestic production and the participation of foreign investors. The renewal means the orientation of the investments to fixed assets, which will also attract a certain structure of the circulating assets<sup>9</sup>.

In the Romanian economy, the first problem consists in the restructuring of the property in order to institutionalize the three types of properties encountered in all countries: private, public and mixed property, simultaneously taking place the restructuring of the Romanian economy, putting at base a real, rational, democratic and humanistic economic concept, according to the national interests, but also with the international economic life.

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<sup>9</sup> P. Miształ, *Foreign direct investments as a factor for economic growth in Romania*, *Review of Economic and Business Studies*, Issue 1, June, 2010

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