

Reinvestigating Determinants of Foreign Direct Investment Inflows in European Countries: Any Difference from the Romanian Economy?

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DOI: 10.51865/EITC.2021.02.05

Abstract

The aim of this study is to investigate the determinants of FDI inflows in Romania. Data was collected from the UNCTAD and WDI from 1990 to 2018, and econometric technique was utilized to address the objective of the study. Consequently, there exists a negative relationship between FDI inflows, growth rate and market size in Romania. However, GDP per capita and per capita growth has a positive relationship with FDI inflows. Furthermore, it could be established that there is an existence of a unidirectional causality which runs from FDI inflows to economic growth. Therefore, the policy makers in Romania should ensure the sustainable growth of GDP per capita and capita per output in the country. Also, as a matter of urgency the authorities in Romanian economy should embark on aggressive policy that will expand the market size and ensure a sustainable rate of economic growth in the country.

Keywords: FDI; market size; GDP per capita; growth rate; Romania.

JEL Classification: F21; F23; F36.

Introduction

In the last two decades, the transition economies of Central Europe have gone tremendous political and economic metamorphosis as a result of globalization and liberalization policies initiated by most of these economies in 1990s. The emergency of Romania in European Monetary Union in 2007 marked its dynamic integration into the world economy, since then the increase of the importance of the FDI in this country has received a great attention of both

developed and emerging economies which are associated with the moving of FDI inflow into this region. Consequently, the strategic role in which foreign direct investment plays in influencing the modernization of the Romanian economy cannot be overemphasized. The multiplier effects of large privatizations in Romanian banking and industrial sectors (oil and petrochemical, metallurgy, machine building) are connected with the total FDI inflows in this country between 2003 and 2006 which grew sporadically from 9,059 million Euros to 1.946 billion Euros, which is 78.51% increment. In 2008, FDI net inflows contributed to about 6.3 percent of the country's GDP. However, the global economic and financial crisis of 2010 caused a slow inflow of FDI in the Romanian economy. At the end of 2011, the balance of foreign direct investment reached 55.139 million Euros, 4.9% more than the balance of the previous year. It worth of note that larger bulk of FDI came from European countries in 2011 with Netherlands accounted for 21.7%, Austria 17.5%, Germany 11.4% and France 9.1% respectively. In 2014, 24.9% of employment generation in the country was as a result of the value added by non-financial companies that received flows FDI in the country. Apart from the operating business environment brought about by integration among the European Union countries, other strategic factors that influence the decision to invest in Romanian economy is still subject to debate. Meanwhile, the bulk of past empirical studies regarding this subject matter focus on the panel analysis of European economies. See Hanna (2015), Sum and Chorlian (2014) Hengel (2011) Güngör and Oğus (2010). Due to the heterogeneity effects in these cross countries studies make further examination of individual country becomes imperative because a number of factors, on the actual conditions existing in each country started its own transition course with a different economic potential, policies, and resource endowments. Also, the uniqueness of this work lies in examination of some important determinants of FDI inflows like growth rate of economy, past FDI inflows and openness of the economy which have not been seriously examined in Romania economies in the recent time. Against this backdrop the study examines how variables like market size, growth rate, openness of economy determine the inflows of FDI in Romanian economy in the past three decades. This paper has been organized in the following ways. Apart from the introductory aspect of this paper, Section 2 critically assesses the theoretical and empirical literature review. Meanwhile, methodology, empirical results and policy recommendation are presented in section three.

Literature Review

Theory of multinationals

The theory of multinational firms firstly has its root in 1959 doctoral dissertation of Stephen Hymer, which was published in 1976 after his demise. The widely accepted bone of contention raised by Hymer is that multinational firms and national firms face different costs of production. The firm that has internal, firm-specific advantages over its rivals would overcome the presumed penalties posed by the extra-costs of production. The author argued that economies of scale and superior production technology are the strategic variables are responsible for this comparative advantage multinational firm has over national firms. Similarly, another early monumental work on multinational firms came to limelight by John Dunning (1958) who carried out empirical study about the manufacturing activities of US-based firms operating in the United Kingdom. Consequently, majority of the propositions advanced by Hymer were confirmed in the independent work of Dunning. In an explicit form, Hymer discovered that the US based firms operating in the UK not only paid higher wages but also recorded higher rates of labour productivity and new product innovation than their rivalry firms controlled by the UK firms. As a result of this, Hymer (1976) and Dunning (1958) works have become generally model to identify the firm-specific advantages that drive FDI. As pinpointed by Buckley (1987) anytime multinationals decide to penetrate non-home-nation markets through cross border investment there should be existence of some "internalization" advantages which supersede

over other alternative modes of doing business, as exporting or licensing. In the same vein, there must be economies of scale such as costs of contract enforcement or of maintenance of quality or other standards connected with a firm exploiting a market opportunity via internal operations.

However, Dunning (1988) corroborated that there must be an interaction between the internalization advantages and both firm-specific and locational advantages in explaining FDI. Subsequently, the author developed a model to substantiate his arguments which later became popular as “OLI framework, or “eclectic theory”. The major hypothesis on which the OLI paradigm of international production rotates around is three conditions which facilitate a firm to embark on foreign value-adding activities. These conditions are ownership (O) advantages, locational (L) advantages and internalization (I) advantages. Firstly, before serving particular markets, the firm in question as a matter of fact must possess net ownership (O) advantages vis-à-vis a firm of other nationalities. These ownership advantages could be conceptualized in terms of intangible assets or specific common governance of such firm.

Meanwhile, it must be more beneficial to the companies having ownership advantages to use them or their output themselves, rather than to sell or lease them to foreign firm. This scenario brought about the internalization (I) advantages. If these first two conditions are met, it must be in the global interests of these enterprises to optimize these advantages alongside with at least some variables, natural resources inclusive outside its home country. These advantages are referred to the locational (L) advantages of countries. Therefore, locational considerations should propel firm to extend their operations to countries where these advantages exist rather than concentrating all operations in one country and thereby serving foreign markets via exports and domestic markets through domestic production.

It is important to stress that this framework has been widely considered a reference point regarding the theoretical and empirical investigations of the multinational enterprises.

Empirical literature review

The literature on FDI in developing countries, emerging countries and developed countries are presented in this section of the paper as follows.

Relationship between FDI inflows, economic growth and other macroeconomic in European economies

Moraru (2013) examined the relationship between FDI and economic growth in Romania between 2001 and 2011 with the application of OLS. The author argued that FDI has a positive impact on economic growth by improving the total productivity in the country. Sapienza (2010) posited that the accumulation of capital stocks, know-how and technology are the spillover effects of FDI inflows in Central and Eastern Europe (CEE) countries. In a nutshell, it was discovered that FDI serves as reinforcement for insufficient domestic funds in this region in financing both ownership alteration and capital composition in one hand and introduced technology, managerial know-how and the required skills for restructuring companies in these economies.

Furthermore, Jimborean (2014) opined that the desirability of FDI inflows in Eurozone is linked with the performances of the macroeconomic variables in the zone. As result of this, bank lending, portfolio flows and FDI have led to the boom-bust cycle that is correlated with inequalities in the Central European Economies. Therefore, robust macroeconomic variables, better infrastructural development and labor expenditures that expand in connection with productivity are identified to be prerequisites for future inflows of FDI in this zone.

Bijsterbosch (2010) arrogated the convergence process in Central European countries to substantial FDI inflows. The inflows of foreign capital was viewed a pertinent direction for economic restructuring and distribution of technology globally. Consequently, the absorptive strength of the host country depends on the magnitude of total advantages that are connected to

FDI. As such, the combination of FDI and relative productivity degree can serve as a means of evaluating the extent of benefits that are derivable from the inflows of foreign capital through the absorptive capacity. Therefore, human capital is identified as an important variable for forming the future route of convergence in the zone.

In the same vein, Gheorghe (2014) discussed the impact of FDI on economic growth in Central and Eastern Europe. The author concluded that the role of institutions in influencing the inflows of FDI in the CEE economies cannot be undermined. But the impact of FDI on economic growth in CEE transition countries has yielded a fair result.

Relationship between FDI inflows, economic growth and other macroeconomic variables in emerging economies

Hudea and Stancu (2012) investigated the relationship between technology transfer, FDI inflows and economic growth in seven East European countries between 1993 and 2009. It was discovered from the study that FDI inflows and economic growth have both short run and long run positive relationship in these European countries.

While examining the long run relationship between FDI inflows and economic growth in BRICS countries, Aderemi *et al.* (2019) employed the Johansen Fisher Panel Cointegration and Pairwise Dumitrescu Hurlin Panel Causality Tests to find out that foreign direct investment, growth rate and economic growth possess a long run equilibrium relationship with one another. Also, there is unidirectional causality which runs from FDI to economic growth in those countries. In another perspective, Mottaleb and Kalirajan (2010) examined the variables that derive foreign direct investment in developing countries with a comparative analysis of 68 countries. The authors discovered that FDI inflows were appealed to some countries meanwhile, the reverse was the case for others. Similarly, there was evidence in the study to support the proposition that higher level of GDP or GDP growth rate led to the higher FDI inflows in those countries. In the same vein, Nunes *et al.* (2006) asserted that the degree of openness of the economy, infrastructural facilities, macroeconomic stability, size of the economy, wages, human capital and availability of natural resources are the most important factors that propel FDI flows in Latin America between from 1991 to 1998.

Consequently, Wei (2005) identified cheaper cost of labor, lower country risk, geographic closeness to OECD countries and cultural similarity as the major variables that responsible for the inflows of FDI in China and India. It was also discovered from the study that the huge margin between FDI inflows in China and India was link to the greater market size and external trade relation with OECD countries in which China possesses. In another similar study, Agrawal *et al.* (2011) adopted a modified growth model alongside Ordinary Least Square model in estimating the nexus between FDI and economic growth in China and India between 1993 and 2009. It could be deduced from the paper that the larger market size of the Chinese economy constituted a significant factor behind the reason why more foreign investors preferred China to India. Meanwhile, Jadhav (2012) attributed the inflows of FDI in BRICS economies to openness to trade, market size, and rule of law while analysing the institutional and political determinants of FDI in BRICS countries. The author however, submitted that the availability of natural resources caused the reverse effect in these countries. The implication of this is that FDI inflows in BRICS countries are more of marketing seeking oriented.

Aderemi *et al.* (2018:1) applied Ordinary Least Square model to validate that the key determining variables of FDI inflows in Chinese economy are growth rate, GDP per capita growth and large market size. Meanwhile, in countries like Brazil, India, South Africa, Singapore and Hong Kong, market size has been identified as the major factor that derived inflows of FDI in these economies. Also, GDP per capita growth in both Russia and South Africa has been concluded to be an insignificant factor that caused inflows of FDI inflows

While estimating the factors that propel FDI inflows in BRICS countries, Vijayakumar et al (2010) employed a panel data analysis to establish that labour cost, market size, infrastructure, and gross capital formation are the main factors responsible for the FDI inflows in BRICS countries, but trade openness and inflation are insignificant factors causing FDI inflows in these countries. Azam (2010) examined the factors that facilitate the inflows of FDI in India, Indonesia and Pakistan between 1971 and 2005 with the application of OLS and Log Linear Regression Models. The author concluded that external debt, market size, domestic investment, trade openness and physical infrastructure are the major variables that determine the inflows of FDI in these countries. In another study, Chang (2007) used the Johansen cointegration test, the multivariate error correction model, and the Granger causality to prove that no causal relationship existed between FDI inflows and economic growth in Taiwan

Jadhav and Katti (2012) posited that political instability, voice, accountability, and control of corruption hindered FDI inflows in BRICS countries while reverse was the case of efficient governance and quality of regulatory in BRICS economies.

However, the reviewed of the empirical literature so far established that the researches on determinants of FDI inflows in emerging countries of Europe and Asia are on-going, and the literature is yet to reach a consensus about these variables. Hence, the relevance of this study.

An Overview of Some Selected Economic Indicators in the Romanian Economy

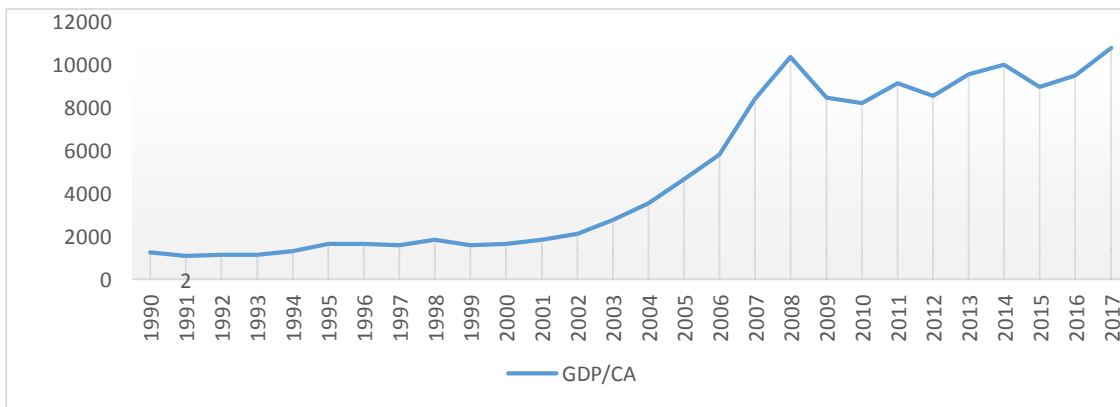


Fig. 1. GDP/CA (\$) in Romania

Source: Authors’ computation (2020).

Figure1 shows the GDP per capita growth which measures the standard of living in an economy. It could be pinpointed from the figure above that in the last twenty seven years (2007-2017), this variable has been relatively stable from 1991 to 2000. From 2001, it moved upwards and got to its pinnacle in 2008 before starting to decline in the following year. Subsequently, the variable recorded upward movement in 2012 and consistently increased on annual basis till 2017. This implies that the standard of living in Romania in the last five years has been improving on annual basis.

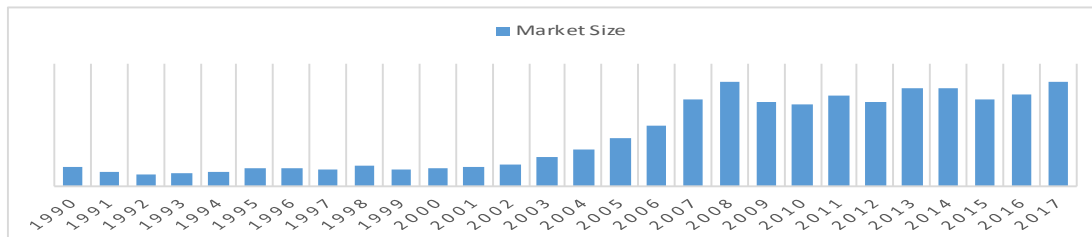


Fig. 2. Market size (\$) in Romania

Source: Authors' computation (2020).

Figure 2 shows the real GDP which measured the market size of the economy. It could be deduced from the figure above that between 1991 and 2002, the market size in this country did not expand significantly. The variable was full of fluctuation during these periods. However, the market size rose up in 2003 and continued steadily on annual basis until it got to the peak in 2008. Consequently, the market size shrank in 2009 and continued fluctuating until 2013 when there was a noticeable improvement in this variable in the country. The decline in the market size between 2009 and 2012 might be as a response of the Romanian economy to the global financial crisis that bewildered the global economy in 2007. From the figure above, one could deduce that the country has started improving its market size in 2017.

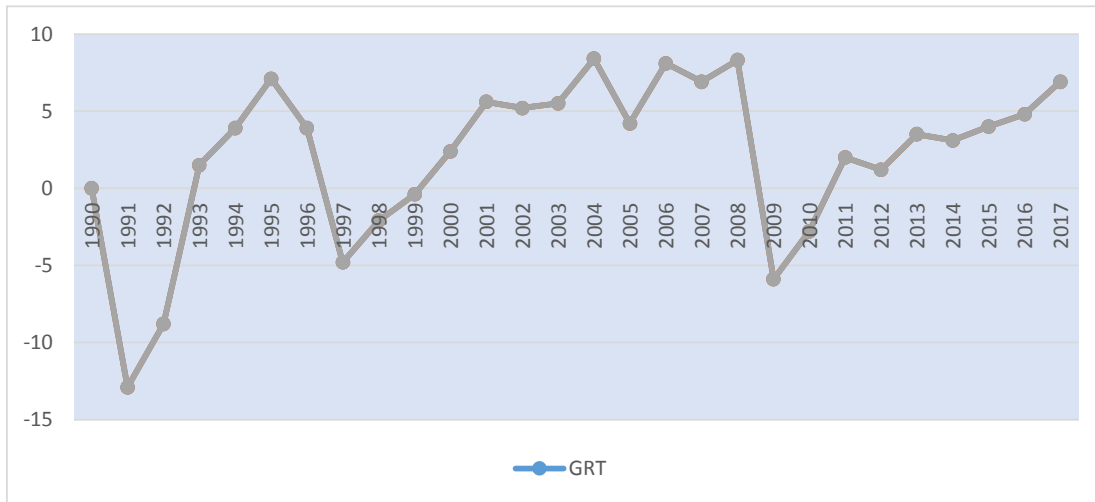


Fig. 3. Economic growth rate (%) in Romania

Source: Authors' computation (2020).

Figure 3 shows the panoramic view of economy performance in term of growth rate in Romania. The country registered a very sharp negative growth in 1991 and 1992 concurrently. 1993 marked economy recovery in this country which got to its highest level in 1995 and declined thereafter with negative growth in 1997 to 1999. The growth rate of the economy sparked off in 2000 got to the pinnacle in 2004 and thereafter fluctuating zig zag before there was a very sharp decline in 2009. However, the growth rate has been on steady rise from 2015 to 2017.

Data and Methodology

This paper made use of secondary data from 1990 to 2018. FDI inflows data were sourced from UNCTAD investment report published by the World Bank. Similarly, data on other macroeconomic variables such as market size, growth rate of the economy, growth per capita and per capita output are extracted from World Bank Development Indicator.

Model specification

The model for this study could be adapted from the studies such as Olaoye *et al.* (2020) and Aderemi *et al.* (2020) by eliminating the irrelevant variables in the adapted model

$$FDI_{infl} = F (MkT, GrT, GDP/CA, PCA/OP,) \quad (1)$$

If the model (I) is log linearized, it gives birth to model (II) as follows

$$\text{LnFDI}_t = \alpha_0 + \alpha \text{MKT}_t + \beta_0 \text{GrT}_t + \beta \text{GDP/CA}_t + \gamma \text{PCA/OP}_t + U_{t1} \quad (2)$$

Where:

FDIinfl is FDI inflows which is measured in millions USD.

MkT is used to denote the market size of the economy: the real GDP is used to proxy it and is measured in USD.

GrT denotes the annual growth rate of economy and is measured in percentage.

PCA/OP connotes GDP per capita growth, and it defines the rate of the standard of living of people. It is measured in percentage.

GDP/CA is used to denote gross domestic product which measured the standard of living of people and is measured in USD.

U captures error term.

t= 1990 - 2018.

α_0 is an intercept and α , β_0 , β and γ are the slope parameters. Aprori expectation α , β_0 , β and $\gamma > 0$.

Estimation techniques

Augmented Dickey Fuller (ADF) and Philips-Perron (PP) unit root tests were employed to test for the stationarity of the data series and Johansen co-integration test for testing the long run equilibrium among the variables. However, the stationary or otherwise of data is a crucial factor to consider in empirical study because it can influence the validity of the result in such a way that a spurious result can emanate from the study. However, if the time series variables possess unit roots, this means that the variables might drift away in the short run and converge in the long run if they are cointegrated. This is the notion behind the cointegration technique advanced by Johansen and Juselius (1990).

Result and Discussion

Table 1. Descriptive statistics of annual data series (1990-2018)

Descriptive Statistics	LRGDP (\$)	LFDI (\$)	LGDP/CA (\$)	PCA/OP (%)	GRT (%)
Mean	25.09177	21.21514	5101.704	2.100000	2.837037
Median	25.05684	21.58316	3552.900	3.700000	4.100000
Maximum	26.08739	23.32533	10813.70	8.400000	10.10000
Minimum	23.94700	17.50439	1102.100	-12.90000	-12.20000
Std. Deviation	0.809552	1.532852	3722.154	5.278819	5.495813
Skewness	-0.023916	-0.901639	0.260570	-1.157490	-1.030189
Kurtosis	1.264714	3.035140	1.293409	3.886514	3.536671
Jargue-Bera	3.390195	3.659675	3.582043	7.169217	5.099820
Probability	0.183581	0.160440	0.166790	0.027748	0.078089
Sum	677.4778	572.8088	137746.0	58.80000	76.60000
Sum. Sq. Deviation	17.03975	61.09049	3.60E+08	752.3800	785.3030
Observation	28	28	28	28	28

Source: Authors' computation (2020).

The above table presents descriptive statistics of the data employed for empirical analysis in this paper. This is important because it provides useful information concerning how sample series are distributed. The estimated results in the table indicate that the values of mean and median of the variables real GDP, FDI, growth rate and GDP per capita growth are almost identical apart from GDP per capita which shows a difference. This shows that the distribution of the data series is near symmetry, because a distribution of data series is perfectly symmetrical when the values of mean, mode and median of such data series converged (Karmel and Polasek, 1980).

Table 2. Unit root test

Variables	ADF Test			PP Test		
	Level	1 st Difference	Remarks	Level	1 st Difference	Remarks
LRGDP	-2.976263**	-2.981038**	I (1)	-2.976263**	-2.986225**	I (1)
LFDI	-2.981038**	-2.986225**	I (1)	-2.981038**	-2.986225**	I (1)
LGDP/CA	-2.981038**	-2.981038**	I (1)	-2.976263**	-2.981038**	I (1)
GRT	-2.976263**	-2.981038**	I (1)	-2.976263**	-2.981038**	I (1)
PCA/OP	-2.976263**	-2.981038**	I(1)	-2.976263**	-2.981038**	I(1)

** %5 level of significance.

Source: Authors' computation (2020).

Table 2 shows the estimated results of unit root tests from the standard Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. The compelling need for this test lies in the fact that time series data are usually associated with a stationarity problem which could make the further analysis based on these data biased. Therefore, attempt was made to overcome this problem in this study. The results of the various tests presented in the above table show that data on all the relevant variables were stationary after first differencing. The implication of this is that the data used in this work are I(1).

Table 3. Johansen cointegration test (trace statistics) and (maximum Eigenvalue)

Null Hypothesis	Eigenvalue	Trace Statistics	P-value	Maximum Eigenvalue	P-value
r=0	0.857420	95.45386	0.0001	48.69625	0.0005
r≤1	0.705541	46.75762	0.0632	30.56538	0.0201
r≤2	0.376299	16.19224	0.6987	11.80211	0.5673
r≤3	0.155295	4.390129	0.8696	4.219209	0.8355
r≤4	0.006814	0.170921	0.6793	0.170921	0.6793

Source: Authors' computation (2020).

As validated earlier that the variables of interest in this study possessed a unit root. It is possible these variables might show deviation in the short run, but there is high tendency they possess a long run equilibrium relationship. In view of the above, a multivariate cointegration test advanced by Johansen and Juselius (1990) was adopted to verify the existence or otherwise of the long equilibrium relationship among these variables. Consequently, the findings from the various unit root tests shown in the table above established the existence of at most four cointegrating vectors in the systems. It is important to state that the Eigenvalue and the maximal Eigenvalue statistics also confirmed the presence of at most four cointegrating vectors in the model at a lag interval of 1 to 1. Therefore, it could be submitted that the variables of interest have a long run equilibrium relationship with one another.

Table 4. Determinants of foreign direct investment in Romania (dependent variable: LFDI)

Variable	Coefficient	t-statistics	P-value
LRGDP (\$)	-23.36156***	1.93	0.0752
LGDP/CA (\$)	23.03988	0.98	0.3552
GRT (%)	-0.440358	0.75	0.4710
PCA/OP (%)	0.340234**	2.56	0.0038
C	417.9307	0.96	0.3612
R-Squared	0.927742		
Adjusted R-Squared	0.783225		

*Significant at 10%, **Significant at 5%, ***Significant at 1%.

Source: Authors' computation (2020).

The estimated results of the regression analysis were presented in the above table. It is clearly evident that GDP per capita and per capita output have the sign. Meanwhile, real GDP and growth rate did not conform to expectation. However, the explanatory variables of the model

which jointly explained about 92% of the systematic variations in the dependent variable, foreign direct investment inflows leaving 8% unexplained as result of random chance. This implication of this result is that this model is comparatively good for the analysis. But, the explanatory power reduces to 78%, when the loss in the degree of freedom was adjusted.

Moreover, there is a negative relationship between FDI inflows and market size denoted by the real GDP in Romania. This relationship is significant at 10% level of significance. A unit change in market size reduces FDI inflows by 23% in the economy. This proves that FDI inflows in Romania is not market seeking. This negative result might be as a result of insignificant expansion in the market size of this economy over time especially between 1991 and 2005. This contradicts the findings of Gheorgh (2014), Moraru (2013) and Jadhav (2012) in similar studies in Romania, Eurozone and BRICS countries respectively.

Similarly, there is an inverse relationship between growth rate and FDI inflows, though this relationship is not significant at 10% level of significance. A unit change in growth rate leads to 0.4% reduction in FDI inflows in the country.

However, GDP per capita and GDP per capita growth have a positive relationship with FDI inflows, though per capita output has a significant impact at 5% level of significance while GDP per capita shows otherwise. These results are validated by the findings of Aderemi et al (2018:1) and Nunes et al (2006) in similar studies in some selected emerging economies and Latin America simultaneously.

Table 5. Pairwise Granger Causality Test

Sample: 1990 2017

Lags: 4

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP_CA ↔ FDI	24	1.12498	0.3817
FDI ↔ GDP_CA		2.33108	0.1032
RGDP ↔ FDI	24	1.03758	0.4203
FDI ↔ RGDP		1.78421	0.0045
GRT ↔ FDI	24	0.79244	0.5481
FDI ↔ GRT		0.43100	0.7841
GDP_CAGRT ↔ FDI	24	0.84764	0.5168
FDI ↔ PCA/OP		0.50329	0.7340
RGDP ↔ PCA/OP	24	0.37670	0.8217
GDP_CA ↔ RGDP		0.25589	0.9015
GRT ↔ GDP_CA	24	0.89145	0.4930
GDP_CA ↔ GRT		1.11796	0.3847
PCA/OP ↔ GDP_CA	24	0.73310	0.5835
GDP_CA ↔ PCA/OP		1.00154	0.4373
GRT ↔ RGDP	24	0.69626	0.6062
RGDP ↔ GRT		1.02638	0.4255
PCA/OP ↔ RGDP	24	0.57483	0.0052
RGDP ↔ PCA/OP		0.90818	0.4841
PCA/OP ↔ GRT	24	0.32052	0.8598
GRT ↔ PCA/OP		0.37643	0.8219

* ↔ Does not Granger Cause

Source: Authors' computation (2020).

This section examines the direction of causality among FDI inflows, GDP per capita, market size, per capita output and growth rate in Romania within the context of Pairwise Granger Causality Test. From the table above, it could be established that there is an existence of a unidirectional causality which runs from FDI inflows to economic growth. This supports the argument put forward by Harrod-Domar and Solow growth models that investment is a necessary condition for economic growth. This means that FDI brings about economic growth in Romania but not the other way round.

In addition, GDP per capita growth granger causes Real GDP. This implies that this variable contributes to the expansion of the market size in the Romanian economy.

However, there is no causal relationship between FDI inflows, growth rate and GDP per capita in this country.

Conclusion and Recommendation

This paper has empirically examined the determinants of foreign direct investment in the Romanian economy between the periods of 1990 and 2017 using cointegration and dynamic OLS approach. Consequently, the findings of this study could be summarized as below:

There is a significant negative relationship between FDI inflows and market size denoted by the real GDP in Romania. This implies that FDI inflows in Romanian economy is not market seeking. Similarly, there is an inverse relationship between growth rate and FDI inflows, though not significant. This shows that the rate at which the Romanian economy is growing has not been a motivating factor behind FDI inflows in the country. However, GDP per capita and GDP per capita growth have a positive relationship with FDI inflows, though per capita output has a significant impact while GDP per capita shows otherwise. This implies that GDP per capita and per capita growths are critical variables deriving FDI inflows in Romania.

Furthermore, it could be established that there is an existence of a unidirectional causality which runs from FDI inflows to economic growth. This shows that investment is a necessary condition for economic growth. This means that FDI brings about economic growth in Romania but not the other way round. In the same vein, per capita output granger causes real GDP. This implies that this variable contributes to the expansion of the market size in the Romanian economy. Meanwhile, there is no causal relationship between FDI inflows, growth rate and GDP per capita in this country.

Consequently, due to the findings that emerged in this study, this paper makes the following vital policy recommendations for the policy makers, financial institutions regulators and future researchers. In view of the above, the policy makers in this country should ensure more foreign investment oriented policies and business environment that would boost further attraction of FDI inflows into the country. Also, policy should be geared towards promotion of a stable political goodwill and macroeconomic variables that would ensure the sustainable growth of per capita GDP and capita per growth in the country. Also, as a matter of urgency the authorities in Romanian economy should embark on aggressive policy that will expand the market size and ensure a sustainable rate of economic growth in the country.

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