GLOBALIZATION AND FOREIGN DIRECT INVESTMENTS

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Abstract: *Mobilizing financial resources to cover investment needs is a concern of all countries, developed or developing ones, of consolidated market economies or emerging ones. A distinctive characteristic of Global Economy over the last few decades has been the rising rate and impressive increase in Foreign Direct Investment (FDI). The purpose of this research is to analyse global FDI inflows in Europe and in Romania.*

The results of the research support the idea that the balance of economic power is changing in the world economy and the countries that own a stable and solid industrial base are at an advantage. The new trends determined by the economic crisis in the field of FDI refer to the growing percentage of developing and emerging countries in the global flows of FDI.

Keywords: foreign direct investments; globalization.
JEL Classification: E22; F44; P33.

INTRODUCTION

The evolution of the world from the beginning of the century and millennium highlights the emphasis of the interdependent process between the key dimensions of economic, political and diplomatic relationships, as well as the rapid and deep changes of large-scale geo-economic and strategic areas - resulted in a sustained dynamics of trade, investments, technological and informational flows, particularly through the increasing role of foreign direct investment (FDI) in the modernization and streamlining of national economies (in the context of reform and privatization processes).

Since antiquity the issue of foreign direct investments (FDI) was and still is quite controversial and debated both at a national and international level. Globalization through FDI has become an everyday part of our lives, either by products or services purchased, through the workplace or trough the way of communication or leisure.

Foreign direct investments are considered to be of particular interest during the last decade as they increase and helped to develop economies. Areas such as infrastructure, education, health, agriculture etc., give the country where the investment is made the desired life-style standard and also a strong economic recovery.

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The crisis overcome will also bring a change in the world economic order, and this will only have a positive influence on the role of the FDI. The importance and effects of FDI attracted, rightly, the attention of all states and resulted in a close competition to attract mobile capital.

At the global economic level, the FDI is oriented mainly towards developed countries, but developing countries also have an interest in this type of investments due to foreign capital inflows, modern managerial experience, know-how and access to markets.

On the other hand, between globalization and foreign direct investments there is a relationship that is manifested in mutual correspondence, foreign direct investment being as well one of the causes that stimulates the deepening of globalization, but also a manifestation of globalization in economics.

At the same time, foreign direct investments often played a significant role in the transformation of developing countries into developed countries and thereby in shaping a new world economic order.

1. CHARACTERISTICS OF GLOBALIZATION

Globalization is a dynamic phenomenon in full swing, with significant effects on all facets of human activity, which has an economic, political, social, cultural, scientific, technological and environmental dimension.

Research on globalization and its forms of manifestation are vast, and opinions, although not necessarily a convergent phenomenon denies neither the importance nor its consequences - positive or negative, depending on the capacity of economies and firms to adapt to highly competitive conditions of the globalized economy.

Harris broadly considers that globalization in a general meaning refers to the integration of humanity and the compression of temporal and spatial dimensions of human interaction, worldwide. Globalization involves economic integration, transfer policies across borders, the spread of knowledge, cultural stability, international production relations and discourses of power, representing an overall process, a concept, an evolution or an institution of the global market (Nikitin and Elliot, 2000).

The global economy evolves within relatively stable and efficient parameters, yet is threatened on multiple levels. The findings of Robert Gilpin are that „even if the world has become increasingly economically and technologically integrated, it continues to be politically fragmented in independent states following their own interest. The forces of economic globalization - trade, financial flows, and activities of multinational corporations - have made the international economy to become more independent” (Gilpin, 2004).

Definitions of globalization known as the most complete and articulate are offered by international economic organizations and consider the economic dimension of globalization.

The European Commission defines economic globalization as a process by which markets and production in different countries become highly interdependent, due to the dynamics of trade in goods and services, capital flows and technology (Al-Rodhan, 2006).

The International Monetary Fund defines economic globalization as a historical process, the result of human innovation and technological progress. This refers to increasing economic interdependence between countries, as a result of increasing volume and variety of cross-border transactions of goods and services, the growth of international capital flows and the growing diffusion of technologies (International Monetary Fund, 2011).

The Organization for Economic Cooperation and Development (OECD) uses the concept of globalization to describe the growing internationalization of goods and services markets, the financial system, corporations and technology industries and competition. In terms of the same organization, globalization is a dynamic and multidimensional of economic integration where national resources are becoming more internationally mobile while national economies are becoming highly interdependent (OECD, 2010).

Given the prevailing economic side of globalization, George Soros defines globalization as the development of financial, global markets, global growth of transnational corporations and their increasing domination of national economies. In his work, “The Crisis of Global Capitalism”, the author points out the deficiencies of the system, looking for the way to a global society. To stabilize and regulate a true global economy, a globalized system of political decision-making framework is required, ie a global society to support a global economy (Soros, 2002).

A common view emerging from these definitions refers to the existence of a set of structures and economic, social, technological, political and cultural processes derived from the changing nature of production, consumption and trade in goods, assets and services globally active, favouring and maintaining the development of globalization.

Against the backdrop of globalization, the investment becomes imperative for any economic system, future results of all entities - micro and macro - depending on the rigor of software analysis and efficiency of investment strategies. Investments represent the material support of socio-economic development of the country. They are the basis refill, diversification and improve quality of all factors of production. Fixed or working capital increase, increase of technical and economic efficiency of machinery, labour productivity, creation of new jobs, diversification of production cannot be provided without a financial resource consumption, without investment. In this context, investments are decisive for the economic growth, the promotion of intensive factors, quality and efficiency. A decisive role in the economic growth and development is held by FDI. It is recognized and treated as beneficial their training and multiplication effect. Foreign investments are completing necessary internal resources and develop competitive factors of production.

2. FOREIGN DIRECT INVESTMENTS (FDI) WORLDWIDE, IN EUROPE AND IN ROMANIA

The dynamics and structure of foreign direct investment (FDI) has contributed, along with other international economic flows, to increased integration of national economies, to stress out the current globalized character of the contemporary economy.

UNCTAD reports concluded that FDI have become an important engine of economic growth because they grew faster than gross domestic product (GDP) and international trade and international corporate sales exceeded by far global exports. Also, FDI flows are higher in comparison to technological flows, expressed through license fees, royalties etc. (UNCTAD, 2006). Foreign direct investments are of interest for all countries, whether developed, developing or in transition. Moreover, there is even some competition between them to attract investment, especially if it happens to be in the same geographical area.

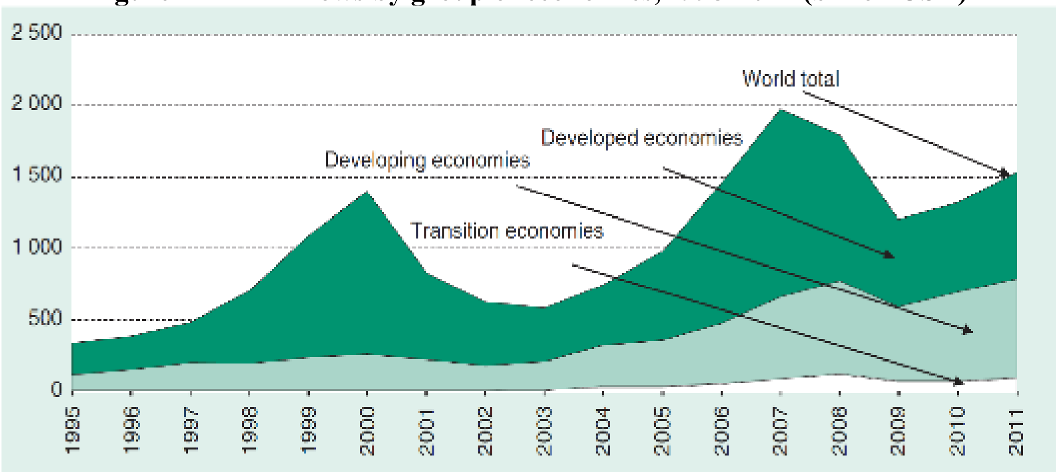
Regarding foreign direct investments in Romania, the flows decreased in 2010, compared to 2009, by 25.6%. According to the information used and presented by the National Bank of Romania (NBR), foreign investments have financed the current account deficit by 50.3%. Their decrease is a gradual one from year to year, according to the central bank. Furthermore, in 2009 they were down by 48.4% in comparison to the previous year (BNR, 2011).

The decline of this situation is stimulated by the economic crisis which, since July 2007, distorted the global economy situation. If in 2007 the crisis began to be noticed on the American continent, in 2008, it has dramatically changed the economic and financial landscape of the European Union. Since then, employment fell and unemployment is at its highest for over a decade. In addition, the decrease of consumption and investment is substantial; economic collapse triggered an acute deterioration in the business climate and consumer confidence.

According to the European Commission Report 2007 - 2010, the total investments decreased by approximately 15% in 2009, compared to the previous year, while consumption fell by about

3%. Exports of goods and services declined dramatically by almost 20% and FDI declined in several countries in central and Eastern Europe.

Figure 1 - FDI inflows by group of economies, 1995-2011 (billion USD)



Source: UNCTAD, 2012

The situation was quite different before the Great Depression, and, even more, the period 2003-2007 is associated with a real boom in terms of FDI. Foreign investments in Romania were one of the main causes of the economic boom during 2000-2008; FDI reached in 2007- 34.5 billion euro, around a third of GDP. The Bucharest - Ilfov area drew in 2007 approximately 64.3% of total foreign investment. On the other hand, manufacturing has attracted most of the money, respectively 34.2% of the total, followed by financial intermediation and insurance, with 22.2%.

The country with the largest stake in the issued capital of companies in Romania was, in 2007, the Netherlands with a total of 3.33 billion Euros, followed by Austria with 2.29 billion Euros and Germany with 1.85 billion euro although, as the number of companies who participate, the Netherlands is only in 16th place, far behind Austria and Germany. Romania was in the middle ranking in the European Union, in terms of FDI attracted in 2007, according to data published by Eurostat, the European Institute of Statistics. Of the 27 EU member states, Romania ranked 15th with a total of 7.3 billion Euros, of which 6.5 billion were from EU countries.

Ranking by countries, the largest investor in Romania was, both in 2007 and in 2006, Switzerland with 400 million euro invested in 2007 and 300 million invested in 2006. As non-EU investors, USA and Canada each have invested 100 million Euros. Countries of Central and Eastern Europe were ranked close to the position of our country. Thus, Poland was ranked 13th in the EU rank, with EUR 12.8 billion, Czech Republic in the 16th place, with 6.7 billion Euros and Bulgaria in 18th place, with 6.1 billion Euros

In Romania, the first effects of the economic crisis were to be felt only in November 2008, through ads of unemployment and layoffs. FDI plunged boldly in 2009, when they amounted to only 4.89 billion Euros, half the value recorded in 2008. According to the Romanian National Bank (NBR), 2010 was the year with the lowest FDI in seven years. Budget deficit, inflation, current account deficit, and public debt, are just a few of the crisis effects and at the same time, the direct causes of economic trends drastically downgraded.

In world rankings computed by the United Nations Conference on Trade and Development (UNCTAD) on performance in attracting FDI in 2010, Romania ranked 73rd, retrograde from 63rd 2009 and 42nd in 2008. According to the report, global FDI flows rose by 5% in 2010, to 1.240 billion dollars, but are 15% below the average before the onset of the economic crisis and 37% lower than in 2007. However, in South - Eastern Europe, FDI flows declined in 2010 for the third consecutive year, the decline was 47%, an effect found in full compliance with the stalled EU Member States. Year 2010 brought a reversal of capital flows situation in the countries of Central and Eastern European region. After a sharp decline in 2009 (-45% per year), FDI started to recover (approximately 9% per year).

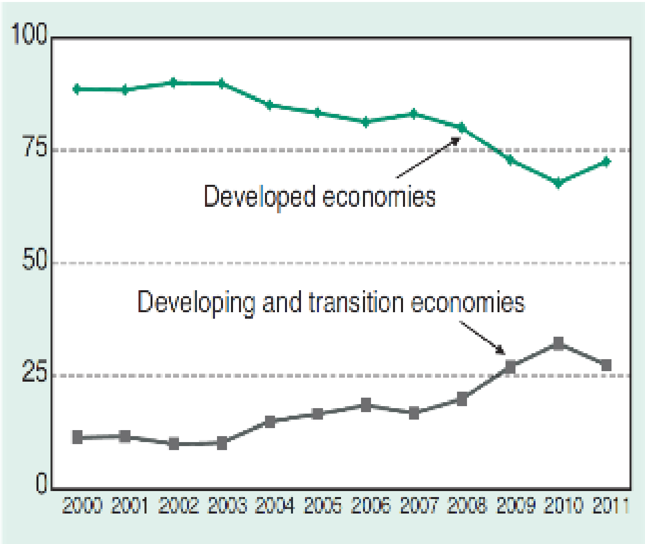
The most encouraging trend is observed in the Czech Republic, where FDI inflows have more than doubled in 2010, reaching the highest level in the region. A similar situation is found in Hungary where, according to EUROSTAT, the negative trend was reversed and FDI accounts for about 2% of GDP in 2010. FDI have recovered in Slovakia, reaching 1% of GDP, in the context of a strong recovery in reinvested earnings and inter-company loans stabilization agreement between parent companies and subsidiaries. The fact that the Hungarian economy reported a current account surplus (2% of GDP) creates a very solid basis for the sustainability of the balance of payments of Hungary. Ukraine FDI remained at a high level (close to 4% of GDP), which actually covers the entire current account deficit, significantly reducing the need for external borrowing.

The World Investment Report, presented in July 2011 at a conference organized by the UN Information Centre for Romania, it is noted that in 2011, FDI have already begun to experience a mild recovery worldwide, being reached a level of approximately 1.400 - 1.600 billion USD. It is worth mentioning that most of the transnational state-owned companies have become major players on the foreign investment market. From a total of 650 transnational state-owned companies worldwide, over 260 are from Europe and generated global FDI outflow of 11%. In 2009, Romania and Poland recorded the largest decrease in the number of investment projects in the region, 48% compared to 2008 in the case of our country, respectively 42% in the case of Poland. On the other hand, in 2010, Poland has managed to rebound, attracting 10 billion euro of foreign investment, nearly four times more than us.

According to NBR, 2011 remained in downturn; in the first five months FDI fell by 23.3% compared to the same period in 2010, to a level of 799 million euro. However, Romania's economic potential should not be overlooked. Erste Group reports estimate that Romania could benefit again from new contributions of FDI in areas such as industrial goods, agriculture and food industry, the IT&C sector and the renewable energy. Moreover, labour productivity in manufacturing increased by over 12% in both 2009 and 2010, Romania remaining a very attractive business destination.

Regarding FDI outflows from developed countries, according to UNCTAD, in 2011 they exceeded 1.200 billion USD. Robust growth (up to 25% of 2010) against the background of increasing FDI outflows from the United States, which reached 397 billion - over the top in 2007, but also of those from Japan, which have doubled the 2010 level.

Figure 2 - The proportion of global FDI outflows, by group of economies, 2000-2011 (billions USD)



Source: UNCTAD, 2012

Europe is a more complicated picture. If FDI outflows from the United Kingdom have almost tripled (the increase was almost 171%) reaching 107 billion USD, flows from Germany (54 billion USD) decreased by half, almost similar to flows in the Netherlands (32 billion USD). Outflows from Denmark and Portugal have reached new records, while Japan became the second largest investor among developed countries after the United States.

Despite the deepening crisis in the euro zone, the total investment flows from and to the most affected countries - Greece, Italy, Portugal and Spain - do not seem to be feeling any effect, although the analysed variables are showing signs of distress, as shown in the UNCTAD report.

Reinvested earnings were lower in all four countries and transnational corporations withdrew their capital from foreign subsidiaries in these countries. Data on FDI outflows suggests that multinational companies based in these countries, either transferred part of their assets to foreign subsidiaries or have left some of their goods there in the form of reinvested earnings.

FDI flows to the transition economies of South-Eastern Europe, the CIS and Georgia recovered the amount lost in 2011 after two years of stagnation of performance. The result was largely due to cross-border mergers and acquisitions, according to the UNCTAD report.

FDI flows aimed at some savings, the main five destinations taking over 87% of FDI flows that entered the region. Russia recorded FDI flows by 22% higher (reaching 53 billion dollars), the third highest level of investments recorded by the country. Foreign investors have been attracted to strong and sustained growth of domestic markets, low costs of labour and productivity, as shown in the report. Foreign investors continued also to be attracted by the high profits generated by the investment projects in energy and natural resources.

CONCLUSIONS

In an open, globalized world, investment demand depends only on the existing investment potential, businesses looking for opportunities wherever they are.

Since the mid-1980s, global economic integration has entered a new period. Since then international economic activities have significantly influenced the economic conditions and national economic policies. Economic distance between countries has decreased remarkably; trade has continued to grow intensively, capital movements exploded, while transfers of capital and knowledge have increased. In other words, countries have become more interdependent and the process of strong economic integration emphasized in the past 20 years.

Globalization, deregulation favoured by the deregulation regarding movement of capital and opening of the countries towards market economy, manifested in particular by diversifying forms of internationalization of production - world trade, FDI and enterprise networks.

Foreign direct investments are one of the key drivers of globalization. Stepping interdependence of the world economy in the last three decades has been driven mainly by developments in foreign direct investment. If until 1970 the international activity resulted in trade of goods and services between countries, international trade being the force that generated global economic development, subsequently, increased the importance of capital movements, an important place being held by transnational corporations who base their work on foreign direct investments.

Over time, international trade grew twice faster than GDP, whereas FDI flows have grown twice as fast as world trade. In the last decade, there were many causes that gave rise to the expansion of FDI. Among them we can mention: the international expansion of production promoted by transnational companies; the level of economic development or implementation stage of the reforms; the growing movement of capital gain generated by a large number of cross-border mergers and acquisitions; the appearance of integration formations; globalization of production and the internationalization of markets; the enhancing of technology international transfer; the differences between the efficiency and structure of markets and not least existing complementary relationship between trade and investment.

In conclusion, foreign direct investments represent „the peak" globalization and hence of the entire world economy.

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