TRENDS IN THE EVOLUTION OF WORLDWIDE FOREIGN DIRECT INVESTMENTS

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Abstract: *The flows of foreign direct investments constitutes a major component of the phenomena that manifest themselves in the world economy, these representing financial resources geared toward a particular investment area that allow those who invest to develop operations over which they have the control and the decision-making power. Given the fact that the world economy is characterized by the increasing interconnectedness of national states as a result of spreading the links in the spheres of economic, political, social and cultural life, following starting with 2008 a period of unusual developments, the purpose of the paper is to analyze the evolution of worldwide foreign direct investment (FDI) inflows, before and after the onset of the global economic crisis.*

Keywords: foreign direct investment; FDI inflows; financial crisis.
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INTRODUCTION

The year 2008 marked the beginning of a new period in the evolution of the global economy, which for many people meant the beginning of a period of crisis, called first - financial, then economico-financial, initially world-wide crisis and then, after a few years, actually a crisis of the old world order, a crisis that has not actually affected all world economies and that, certainly, rewrote the world hierarchies.

A special emphasis is put on the idea of dynamic, of continuous change of the relative position of the countries and economic entities in some hierarchies who depend so much upon the criteria according to which they are made.

As economic phenomenon the FDI have long been characterized by a pronounced dynamism. Thus, these have increased in the period from 1982 to 2000, about 22.4 times, i.e. from 58 billion dollars to 1,400 billion dollars.

This dynamic meant for the mentioned period annual growth over 30% in the case of more than 65 countries. Even though nowadays, especially during the economic crisis, there can no longer register such rhythms, yet the mentioned period should not be forgotten because it coincided with the ending and consolidation of the contemporary globalization done just through foreign direct investment.

Under the economic crisis persistence in many countries of the world, or of some small signs of recovery, the trends in the field of FDI policies continued to be characterized by accents on the

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liberalization and promotion. Over two thirds of the measures taken, in 2010, in the field of FDI policies, were of this nature (Bonciu, 2012).

The aim of this paper is to analyze the evolution of worldwide FDI inflows, before and after the onset of the global economic crisis.

The analysis of the internal flows is important because it offers an indication regarding the level of integration of the reception countries in the world economy, and in the same time, it indicates also the countries or regions that benefit by the advantages determined by these flows.

On the other hand, the understanding of the flows distribution of FDI and of the dynamics is very important for the formulation and implementation of strategies and policy of the attraction of direct foreign investments (Bonciu, 2003).

1. LESSONS FROM EUROPE'S LONG RECESSION AND THE IMPLICATIONS OF THE ECONONOMIC CRISES STARTED IN 2008

An important lesson concerns the fact that a low level of inflation is not a sufficient condition for ensuring long-term financial stability. The previous experiences seemed to confirm the vision that inflation is the main source of financial instability. The current world financial crisis emerged after nearly two decades of relatively low and stable inflation. A number of factors have made low inflation to coexist with abundant liquidity.

The financial crisis was triggered by the U.S.A. subprime crisis, which has arisen due to the fact that the Fed has been forced to increase the interest rates to defend the inflation. But with the new texture, the raising interest rates has led to the financial crisis (Isărescu, 2009, p. 2).

Another lesson, briefly stated by Isărescu in his Speech at the Romanian Academy, during the debate "What can we learn from the current economic crisis?", concerns the fact that in the EU we are missing some institutions and this aspect is highlighted very clearly in the Larosiere Report. In the chapter dedicated to the remedial measures in the field of financial supervision in the EU it is proposed a structural reform that takes into account two areas: macro-prudential supervision and micro-prudential supervision. The report considers justified the establishment of the European Council of Systemic Risk (ECSR). This should collect information about the risks and macro-prudential vulnerabilities of all financial sectors in the EU. The Council will issue alerts about risks and will adopt the economic policy guidelines. Another institution proposed by the Report of European System of the Financial Supervision, where the level 3 committees (CEBS, CEIOPS, CESR) will be transferred to the three new European authorities: the European Banking Authority, the European Securities Authoritynand the European Insurance Authority, that will have greater powers in relation to the supervision and approval of specific EU institutions (Isarescu, 2009, p. 5).

In the context of the beginning of the economic crisis in 2008, the European Union has to solve a number of difficult issues, such as (Bonciu, 2012, p.137):

1. Solving problems related to efficiency of the common agricultural policy which were manifested in the formula of 15 members. The situation became more complicated after the 2004-2007 period due to the fact that some of the countries that have acceded to the European Union have a high share of agriculture in GDP, which may threaten the community balance (and so delicately) this sector;
2. The problem of the growing technological difference of the European Union, in particular from the USA and Japan;
3. The loss of competitiveness and great competition represented by China and India;
4. Solving of some problems related to the use of the labor force, in order to reduce unemployment;
5. Identification of some solutions for the correlation of the common monetary policy with the national budgetary policies. By enacting the Euro, the national Governments have less possibilities to maneuver, for example, they can no longer resort to devaluation of currency or issue additional currency for addressing imbalances in the balance of payments;
6. The acceptance of a more important role in global power, fact which involves additional costs whose funding is uncertain;
7. The EU enlargement in 2004 and 2007 with 10 plus 2 new members has put unprecedented problems both by the scale (no other enlargement has involved 10 plus 2 states), as well as the existence of some development gaps. The new members have a low level of development of community media than they had, for example, Greece or Portugal at the time of accession.

But beyond all this, the main problem is if it will be able to propose a new European model to determine a substantial support on the part of the citizens' that manifests an attitude increasingly marked by Euroscepticism. In this context it will have a special importance and will react the way that the Member States and their citizens to propose the setting up of the United States of Europe, in other words the proposed federalization of Europe.

2. TRENDS IN THE EVOLUTION OF WORLDWIDE FOREIGN DIRECT INVESTMENTS

The period 2004-2010 can be divided in terms of the characteristics of the global flows of foreign direct investment in two distinct periods (Bonciu, 2012, p.189):

Period 2004 - 2007: rising period

After three years of successive cuts (2001-2003) the global flows of foreign direct investment have increased in 2004 and 2005, and in 2006 to exceed once again the symbolic barrier of 1,000 billion US dollars, or a trillion dollars. This barrier was crossed for the first time in 2000, it was followed by a steep fall in 2001, with about 37 percent as a result of the climate of instability and risk of armed conflict which had thus far followed the moment of September 11, 2001.

Thus, in 2004 the global foreign investment flows have increased by 22% compared to 2003 to a level of 802 billion dollars. Then, in 2005, followed a new increase with 19% compared to the prior year up to a level of 955 billion dollars, because in 2006 the world level to reach 1160 billion dollars.

The year 2007 has seen a new historical maximum, respectively, 1,900 billion dollars, but is also the end of a period of growth which began in 2004.

Period 2008 - 2009: decline period

Because of the global financial crisis in 2008, the global flows of foreign direct investment fell by about 16.5% compared to the previous year (up to 1.650 billion dollars level), a phenomenon that continued into 2009, with a significant reduction compared to the previous year (i.e. 40%), while overall level achieved in 2009 was about 1,000 billion dollars (that is, similar to the year 2000).

Unfavorable developments in 2008 and 2009 were manifested differently from one area to another. Thus, in Africa, FDI inflows have been in 2009 a decrease by 19% compared to 2008, mainly due to the reduction in global demand and also to the fall in prices to the consumer.

In the case of South, East and South-East Asia, 2009 brought the first contraction of ISD flows in 2001, respectively, with 17% compared to the prior year. This contraction was due mostly to the reduction of cross-border mergers and acquisitions (with 51% compared to the previous year). A significant reduction was registered in West Asia (24% compared to the previous year), mostly due to the decline of world trade, but also more difficult access to credit.

A significant reduction was held, also in 2009 and in South America (36% compared to the previous year), mostly because of reduction in the volume of mergers and acquisitions.

After eight years of uninterrupted growth, and South-East Europe and Commonwealth of Independent States (CIS) have experienced in 2009 a significant reduction in inputs of ISD (43%). The causes were different, if CIS being especially the contraction of domestic demand, and in the case of South-East Europe, in particular by reducing the volume of mergers and acquisitions.

The most significant decrease in foreign direct investment inflows were recorded by the developed countries (44% compared to the previous year) The U.S. were farmore affected than the European Union, due to the favorable developments in Germany. The main cause of the reduction in ISD flows have been represented by the contraction of international mergers and acquisitions of about 65 percent.

These major decreases in world investment flows were caused by several factors, including:

-slowing economic growth or even recession in most countries of the world;

-major drop in the value of assets as a result of the collapse of capital markets;

-significant reduction in profits;

-credit conditions more difficult;

-a significant reduction in demand.

Period 2010 - 2011: resumption of growth

In 2010, the global FDI flows have increased moderately comparing with the previous year, with about 5% up to 1,240 billion dollars level, the level is still below the average of 15% the previous years of the crisis.

The significant growth of foreign direct investment flows to developing countries in 2010 was due to the improving of some of those countries' economies, to the significant growth of domestic demand and further intensification of international economic relations South-South.

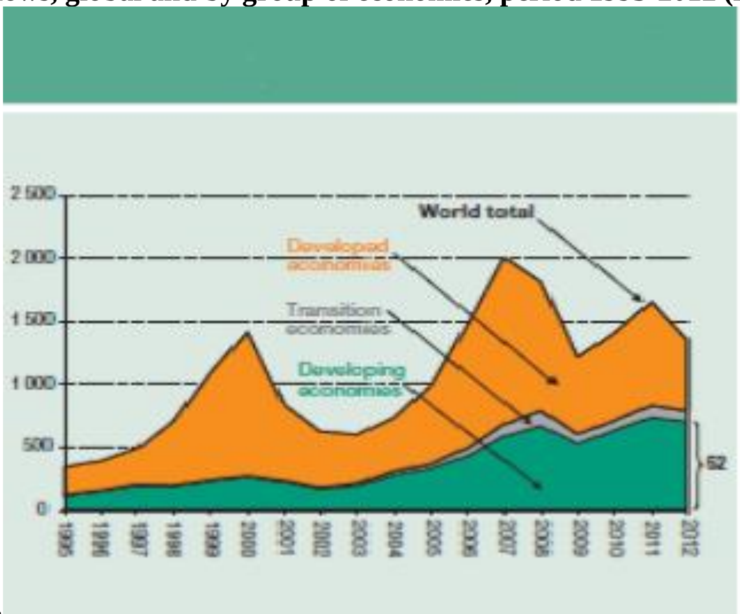
In 2011 the rise of FDI flows was widespread in all three major groups – developed, developing and transition economies. It is noted that developing economies continued to absorb nearly half of global FDI as their inflows reached a new record high of $684 billion and transition economies also continued to rise, to $92 billion, accounting for another 6 per cent of the global total (UNCTAD, 2012).

Period 2011-2012 is basically characterized by many elements of uncertain economic and political fragility which has caused investors to be more careful and the road to the recovery of FDI turns out to take longer than expected.

Global foreign direct investment (FDI) fell by 18 per cent to $1.35 trillion in 2012, flows are expected to reach levels of $1.6 trillion in 2014 and $1.8 trillion in 2015. This sharp decline was in stark contrast to other key economic indicators such as GDP, international trade and employment, which all registered positive growth at the global level (UNCTAD, 2013).

In 2012, for the first time ever, developing economies absorbed more FDI than developed countries, accounting for a record share of 52 per cent of FDI inflows as it is shown in Figure 1.

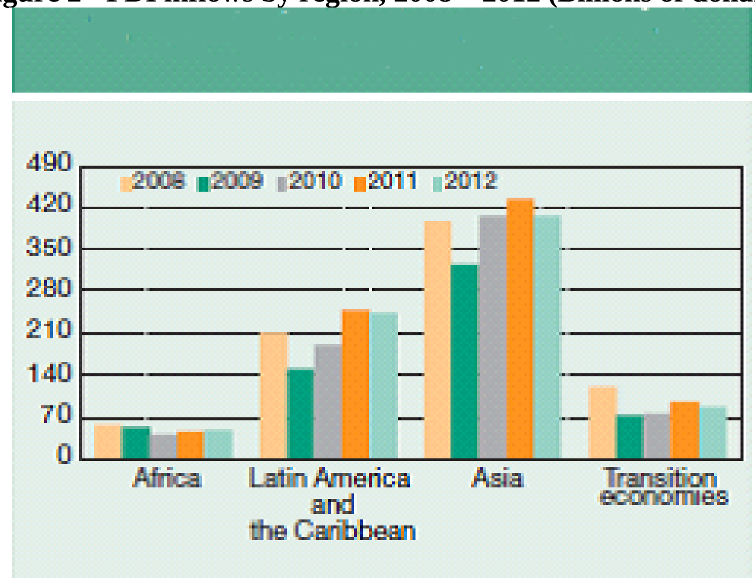
Figure 1 - FDI inflows, global and by group of economies, period 1995-2012 (Billions of dollars)



Source: UNCTAD, 2013

FDI flows declined dramatically in *developed countries* in 2012, falling sharply both in Europe and in the United States. In accordance with UNCTAD Report, 2013, Africa was the only region that saw FDI flows risen as it is shown in Figure 2, below.

Figure 2 - FDI inflows by region, 2008 – 2012 (Billions of dollars)



Source: UNCTAD, 2013

CONCLUSIONS

As a result of the global economic crisis an historical phenomenon of ending the trend of several decades in which the developed countries were the main destination of the world's capital has emerged. This is mostly explained by the developed countries' decrease in consumption, induced by the economic crisis, which made the large scale investments no longer sustainable.

Based on the analysis of the evolution of flows of foreign direct investments worldwide in 2010 for the first time ever, developing economies absorbed more FDI than developed countries, they accounted for a record share of 52 per cent of FDI inflows.

On the analysis of FDI flows by region, Africa was the only region that saw FDI flows rise in 2012, while U.S. and European shares fell.

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