GLOBALIZATION AND FOREIGN DIRECT INVESTMENTS

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Abstract: *Much discussed and analyzed globalization is a multidimensional and complex process having today a significant magnitude as compared to the past, manifested through various forms of internationalization of production, foreign direct investment (FDI) flows, transnational corporations (TNCs), technology transfers, capital movements, migration flows, amplifying competition between investors and the connections between markets. The complexity phenomenon of globalization contributes to the diversification of opportunities for the development of national economies through effects in economic, political, social, technological, cultural sphere, intensifying the economic and financial relationship between economies and the interdependence between them. The purpose of the current attempt of research is to analyze the link between FDI and globalization, the paper focusing on FDI as one of the most powerful evidence of economic globalization.*

Keywords: globalization; FDI flows; TNCs
JEL Classification: E22; F21; P33

Introduction

Globalization has become one of the hallmarks of XXI century, a path of world development and growth that makes national isolation no longer be a solution, contributing in understanding the world as a whole, where the effects and intensity of globalization is not equal for all, depending on the individual to individual, the way of life, of the social, educational and cultural nature of each individual.

The concept of globalization knows nowadays many different meanings and definitions related to social and economic reality that is constantly changing.

Globalization is an open concept that serves to define "the opening" of mutual societies under the influence of the rapid technological change; is a concept that is about the function of the real markets with their advantages and disadvantages, taking into account the progress of advanced economic theory in order to learn important lessons, such as: the need for effective regulation of the markets, the role of the state in providing public goods, the role of institutions, the need for public goods and good governance in the world economy, as well as the importance of diversity and international development policies that should prevent coordination failures (Daianu, 2009, pp. 39-53).

Economic globalization according to Stiglitz (2008, p. 19) "implies a closer cooperation of the countries of the world, through enhancing the movement of goods and services, capital and even

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labor" and Stiglitz (2008, p. 20) believes that "the great hope of economic globalization is that it will help to raise the living standards all over the world by the opportunity to give the poor countries access to foreign markets in order to sell their products; by attracting foreign investments, in order to facilitate the emergence of new products at lower prices; open borders that allow easy movement of people all over the world, in order to train, to work, to build new businesses", the author also believes that "the economy has led to globalization, especially by decreasing communications and transport costs, but the policy was the one that outlined this process" (Stiglitz, 2008, p. 20).

Globalization can be found in one way or another in all spheres of economic and social life, it is a real process that can not be stopped. In this context, Sen (2004, p. 300) underlines that "the only solution that is not available is the one to stop the trade globalization and economies, because it is hard to resist to the forces of economic exchange and division of labor in a competitive world, fueled by massive technological evolution, that gives modern technology a competitive side in economic terms".

Bari (2003, p. 37) defines the globalization of the world economy as "a very dynamic process of increasing interdependence of national states as a result of expansion and deepening of transnational connections in ever larger and more varied spheres of economic, political, social and cultural life, demanding, in their turn, a global solution rather than a national one".

In contemporary literature it can be seen that there are many perceptions of globalization and over time there have been both favorable and critical opinions about globalization process. Authors as Linda Weiss (2002, p. 260) points out that "globalization trends were exaggerated and we need to use the language of internationalization in order to have a better understanding of changes that take place in the global economy." In this context, Francis Fukuyama in an interview on "Economic Globalization and Culture: A discussion with Dr. Francis Fukuyama" believes that in many respects, globalization is still superficial pointing out that the global economy is still limited and the real layer of globalization is restricted to the capital markets.

The paper is structured in the following sections: section one provides an analysis regarding the link between FDI and globalization, while the second section of the paper presents the dynamics of FDI inflows, global and by groups of economies in 1990 – 2013, followed by the main conclusions.

The purpose of the current paper is to analyze the link between FDI and globalization, focusing on FDI as one of the most powerful evidence of economic globalization.

1. Foreign direct investment and globalization of production

Foreign direct investments by transnational corporations play a decisive role in the evolution of economy as a whole, in connecting the economies of many countries and through them transnational corporation develops international production activities, highlighting the global interdependence on interstate in a process of increasing integration.

Table1 reflects the link between FDI and globalization and the important role of the foreign affiliates of transnational corporations, so of FDI and it shows that global sales of foreign affiliates of transnational corporations represents 46 per cent of GDP in 2013 and 1.49 times more than the value of exports of goods and services. Based on these data it results that 46 per cent of everything that is produced worldwide is carried out by transnational companies through their subsidiaries located in another country than their own country.

Table 1 – The importance of FDI and globalization of production

Value at current prices (Billions of dollars)

Indicator	1990	2005 – 2007 pre-crisis average	2011	2012	2013
GDP	22 327	51 288	71 314	72 807	74 284
Sales of foreign affiliates	4723	21 469	28 516	31 532	34 508
Value added (product) of foreign affiliates	881	4 878	6 262	7 089	7 492
Export of foreign affiliates (thousands)	1498	5 012	7 463	7 532	7 721
Exports of goods and services	4 107	15 034	22 386	22 593	23 160

Source: based on: UNCTAD, 2014 - World Investment Report - Investing in the SDGs: An action plan, p. 18

On the basis of UNCTAD report for 2014, FDI by TNCs from developing economies reached another record level of 454 billion USD and together with transition economies, they accounted for 39 per cent of global FDI outflows, compared with only 12 per cent at the beginning of the 2000s. International production by TNCs continued to expand in 2013, generating value added of approximately 7.5 billion USD and their foreign affiliates employed 70.726 thousands people. According to UNCTAD's estimates there are at least 550 State-owned transnational corporations from both developed and developing countries, a number that is relatively small, but UNCTAD points out that the number of their foreign affiliates and the scale of their foreign assets are significant, with more than 15.000 foreign affiliates and foreign assets of over 2 trillion USD, some are among the largest transnational corporations in the world and FDI by these TNCs have reached more than 160 billion USD in 2013 (UNCTAD, 2014, p. 14 – 18).

Transnational corporations benefit from resources, management, and production, they supply the markets from around the world and through the development of foreign direct investments they also acquire and have assets in several states.

Corporations play a major role in spreading the benefits of globalization in the developing countries, helping to raise the living standards in many regions of the world, and as agents of technology transfer, they have contributed to reducing the gap between advanced industrialized and developing countries. Therefore, the essential role of corporations in the globalization process is explained by: corporations cover the entire globe, they bring together technology and capital of the developed countries with production capacities of the developing countries; they have brought in developed countries cheap products, offering them increasingly better products, thus determining decrease in the cost of living; corporations also led to the creations of jobs and they have stimulated economic growth in developing countries (Stiglitz, 2008, pp. 164-171).

2. The dynamics of FDI inflows, global and by groups of economies, 1990 – 2013

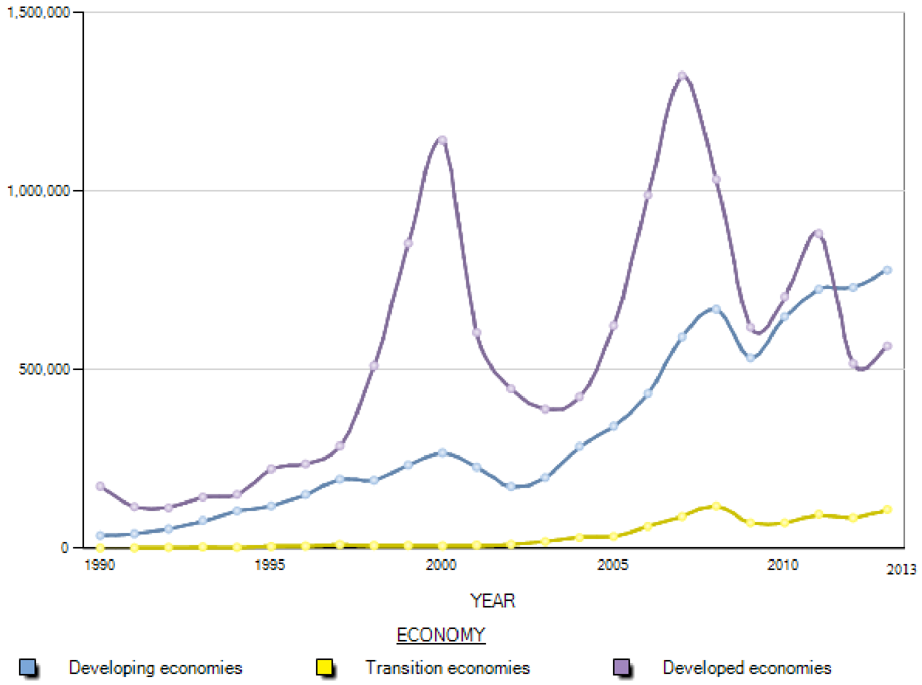
The growth of foreign direct investment is one of the most powerful evidence of economic globalization, thus FDIs being considered as "the peak" of globalization, therefore of the entire global economy (Donciu, 2013).

The increase of FDI flows is driven by factors such as: the structure of the world economy, gross domestic product (GDP) trends, mergers and acquisitions by foreign companies; measures of economic policy, privatization and liberalization of foreign investments (Negritoiu, 1996, pp. 26-27).

Figure 1 shows FDI inflows trends by group of economies, divided into developed, developing and transition economies, in the 1990 – 2013 period, and it can be seen that, the FDI inflows trend is asymmetrical and is generally upward. From figure 1, it can also be seen an accelerated upward FDI inflows trend until 2000, followed by a significant decline in FDI inflows until 2003, due to the slowdown of the global economic growth. Between 2004 and 2007 the FDI inflows returned to an upward trend, after three consecutive years of decline, reaching a record level of 2 trillion USD in 2007. The growing of foreign investment liberalization measures was an important contributing factor for the FDI inflows growth. After the collapse of one of the largest institutions in the United States, Lehman Brothers on September 2008, the global FDI inflows met a significant decrease, from the record level of 2 trillion USD in 2007, to 1.82 trillion USD in 2008. The global FDI downturn has evolved differently by country and groups of economies in 2008 and 2009, this trend persisting in the period of 2009 – 2010 as well. FDI inflows in developed economies fell significantly in 2008, due to: the slowdown of the global economic growth, the sovereign debt crisis, reduced demand, fall in the prices levels and in asset values, while, in contrast, both developing and transition economies registered record levels of FDI inflows in 2008. The global FDIs inflows and those by group of economies registered a significant downward trend reaching a global level of 1.22 trillion USD in 2009. In the period 2008 - 2009, the FDI flows and their components, such as: equity capital, reinvested earnings, and intra-company loans, met significant downturns at the level of developed countries.

The critical point was reached in 2010, when for the first time, developing countries and transition economies received more than half of the global FDI flows, while the FDI inflows towards developed countries continued to decline.

Figure 1 - FDI inflows by groups of economies, 1990 – 2013 (Billions of dollars)



Source: own representation using UNCTAD database

In 2011-2012, the global foreign direct investment inflows have again taken a downward trend, as the global economy is continuing its fragile recovery, as well as due to the political uncertainty the investors faced. In this context, the global FDI inflows have declined by 18 per cent, from $1.65 trillion in 2011 to $1.35 trillion in 2012 (UNCTAD, 2013, p. 9).

The global foreign direct investment inflows increased moderately by 9 per cent in 2013 to \$1.45 trillion. According to UNCTAD report for 2014, FDIs rose across all groups of economies in 2013.

FDI flows to developed countries rose by 9 per cent, reaching a level of 566 billion USD, accounting for 39 per cent of global FDI inflows, mainly due to the greater retained earnings in foreign affiliates in the European Union (EU), resulting in an increase in foreign FDIs flows towards the EU. Developing economies increased their global share of FDI inflows to a record level of 54 per cent of the total, reaching a value of 778 billion USD, while transition economies registered a value of 108 billion USD accounting for 7 per cent of the global FDI inflows, much of it driven by Russian Federation, which reached a value of 79 billion USD, making it the world's third largest recipient of FDIs for the first time (UNCTAD, 2014, p. 2 - 4).

In developed countries, the five largest recipients of inflows in the world in 2013 are: United States (188 billion USD), Canada (62 billions USD), Spain (39 billions USD), United Kingdom (37 billions USD) and Ireland (36 billions USD). In contrast in developing and transition countries stand - out as the five largest recipients of inflows in the world: China (124 billion USD), Russian Federation (79 billion USD), Hong Kong, China (77 billion USD), Brazil (64 billion USD) and Singapore (64 billion USD).

The top 5 countries ranked among the 20 largest investors in the world in 2013 are: the United States that is the largest investor abroad (338 billions USD), followed by Japan (136 billions USD), China (101 billions USD), Russian Federation (95 billions USD) and Hong Kong, China (92 billions USD) (UNCTAD, 2014, p. 15).

A survey of UNCTAD on investment prospects of TNCs and investment promotion agencies (IPAs), is cautiously optimistic; there is expected an upturn in global FDI flows for the period of 2014-2016. According to UNCTAD projects, the global FDI flows are expected to rise further to \$1.62 trillion in 2014, \$1.75 trillion in 2015 and \$1.85 trillion in 2016 (UNCTAD 2014, p. 23). Nevertheless, there is no FDIs scenario which expects the levels of FDI inflows in the period of 2014 - 2016 to reach the 2007 peak of 2 trillion USD.

Conclusions

Globalization is represented by progressive economic integration of national economies on a world scale, which become components of the global economy, aiming to develop free trade relations and transforming the world economic system including all aspects of production, trade, distribution or other processes belonging to the socio-economic sphere.

Globalization is not perceived similarly in the world; over time there have been both favorable and critical opinions about this process, although "the problem is not if globalization itself is good or bad, but how can we reshape globalization in order to make it work better" (Stiglitz, 2008, p. 164).

The paper has examined the link between FDI and globalization, and the dynamics of FDI inflows, the global ones and those by groups of economies for 1990 – 2013. The FDI inflows trends by group of economies in the period 1990 – 2013 is asymmetrical and generally upward. The FDI inflows in the developing and transition countries have reached higher levels than those in the developed countries between 2006 - 2013, due to the size of markets (Brazil, Russian Federation, India, China), efficiency, lower labor costs and international production. The proliferation of FDIs, especially those of transnational corporations had a significant impact on the globalization process, as the dispersion of transnational corporations activities stressed the interstate interdependencies, integrating them into a complex system of international production.

In contemporary economy FDI have become an important source of external financing for all countries in the world. Foreign direct investments facilitate the transfer of advanced technologies and "know how", implementing new managerial and organizational forms, and their presence in the economy is a key factor of globalization.

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