FDI FLOWS IN THE ERA INTERDEPENDENCIES

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Abstract:
This paper presents the dramatic changes they have gone through foreign direct investment. Thus, through them, globalization has become a normal component of the existence of each of us through the goods and services purchased through the workplace, the act of communicating or leisure time. An overview of the total volume of FDI in the period 1970-2008 shows that they have had a significant increase over the years, except during the years 2001-2004, when their progress was tortuous and will then resume rise, even above levels previously achieved. The global economic crisis has temporarily halted this trend, but the medium term it will certainly be resumed.

Unusual size of economic and financial crisis in progress raises major problems on the trend and capacity of transnational companies to continue to invest and expand abroad. Declining profits, reduced access to financial resources, declining market opportunities and risking possible worsening of the current global economic downturn are obvious causes for the decline in FDI flows. This, in turn, is causing concern among host countries, especially developing States, which relies heavily on international investment to fund growth and new jobs. Overcoming the crisis will bring about a change of the global economic order, but this will not only be able to influence positively the role played by FDI in the world economic circuit.

Keywords: foreign direct investment, globalization, financial markets, scientific and technical progress, economic crisis

JEL Classification: F21

1. INTRODUCTION

The globalization of world economy is characterized primarily by information and links stability relations, financial, technology between countries. A special significance in the emergence, development and international relations have to maintain those investments. These are the material support of economic and social development of States.

Growing degree of integration of international financial markets leaves its mark on how to run a full orientation and international financial flows. Acceleration of globalization is a characteristic of the beginning of XXI century, and international flows of direct foreign investment are the main manifestation of this process.

With the globalization of foreign direct investment has become a normal component of the existence of each of us through the goods and services purchased through the workplace, the act of communicating or leisure time.

2. GLOBAL FOREIGN DIRECT INVESTMENT

The significance and consequences of foreign direct investment have sparked the interest of states and led to a fierce competition to obtain capital. An equally important goal could not be left solely to market forces or the level of microeconomic decision characteristic of entrepreneurs individually. Analyzed global, FDI goes predominantly to developed countries and developing countries show an interest for such investments because they, in addition to foreign capital inflows, also need experience of leading and organizing activities, know-how and ability to penetrate markets.

Between globalization and foreign direct investment is unique match in both directions. Thus, FDI represents both the excitation factors of globalization and its manifestations in the economic sphere; they also contribute to the transformation of developing countries in developed countries, thus changing world economic order based on new relationships forces and new actors on the world market.

We can not deny that without significant gains FDI host countries, in different forms of capital inflow, creating new jobs, technology transfer, strengthen purchasing power and increasing contacts with the world. It would be unrealistic if we did not confirm the benefits that they generated foreign direct investment flows increased scientific and technical progress in the world, even in less industrialized countries, the development of world trade growth, improve living standards and more effective exploitation of economic resources.

An overview of the total volume of FDI in the period 1970-2008 shows that they have had a significant increase over the years, except during the years 2001-2004, when their progress was tortuous and will then resume rise, exceeding the previously achieved levels.

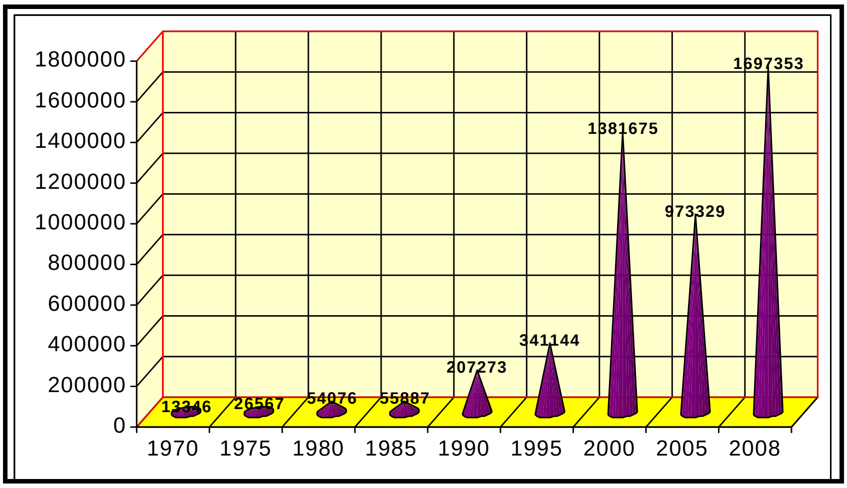


Figure 1. FDI global flows (inflows) in the period 1970-2008

(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

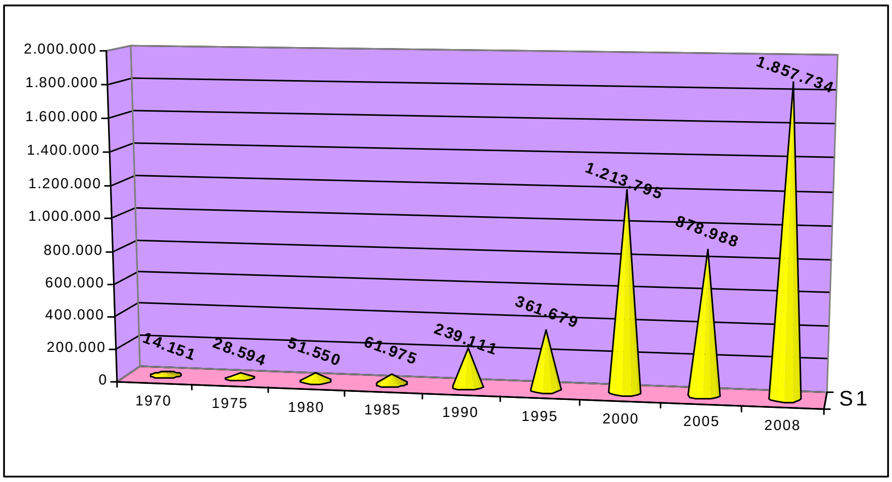


Figure 2. FDI global flows (output) in the period 1970-2008

(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

During 1987-1997, global FDI flows have seen a doubling every five years, but a significant increase was recorded in the year 1999, when FDI flows almost saw a significant boom, compared with the previous period.

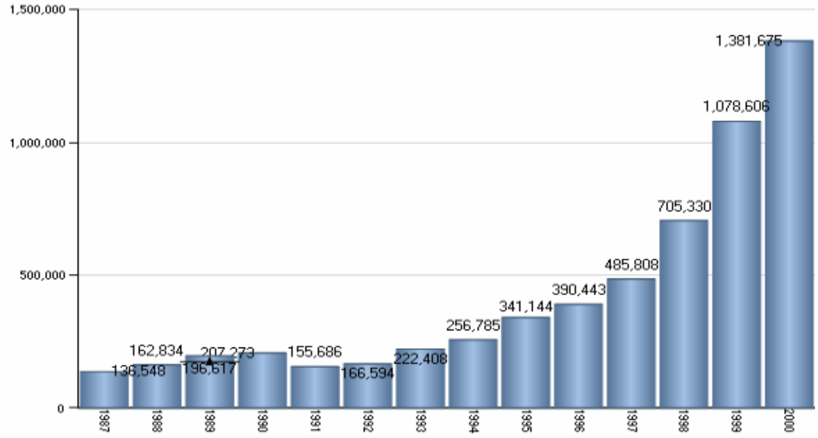


Figure 3 . FDI global flows (inflows) in the period 1987-2000 (U.S. dollars at current prices and exchange rates in force, in millions)**.** Source: UNCTAD, Major FDI indicators (WIR 2009)

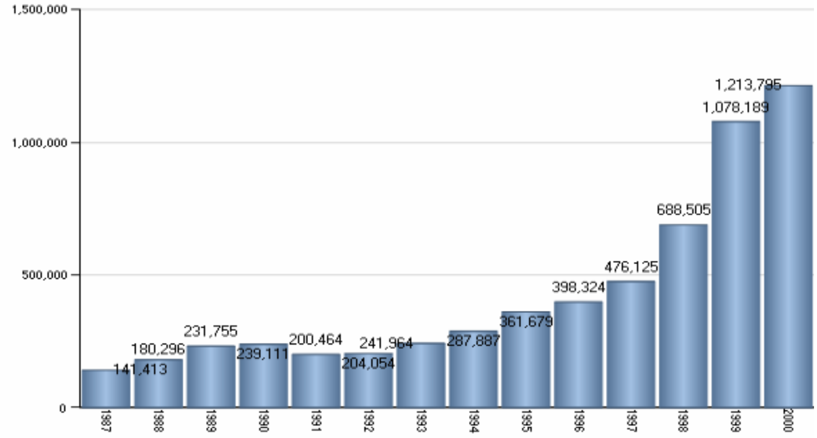


Fig.nr. 4 - FDI global flows (output) in the period 1987-2000 (U.S. dollars at current prices and exchange rates in force, in millions). Source: UNCTAD, Major FDI indicators (WIR 2009)

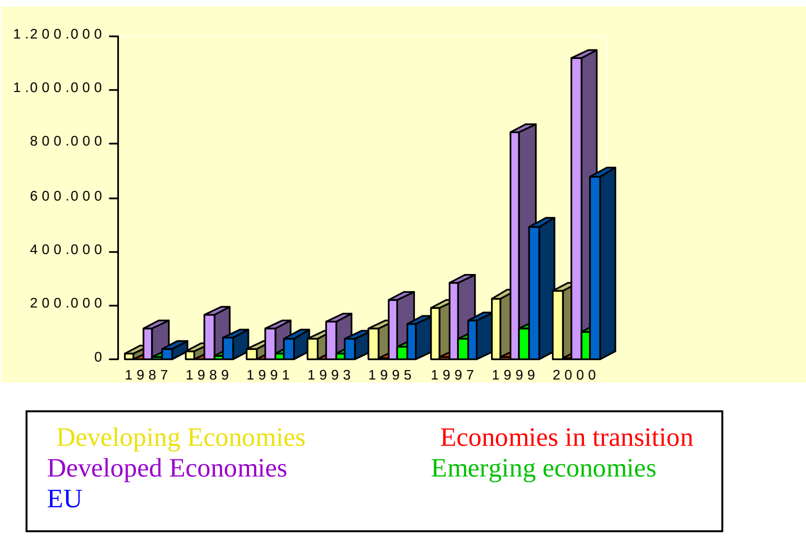


Figure 5. Foreign direct investment flows (inputs) by types of Economies in the period 1987-2000 (U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by UNCTAD data, indicators (WIR *author based on Major FDI 2009)*

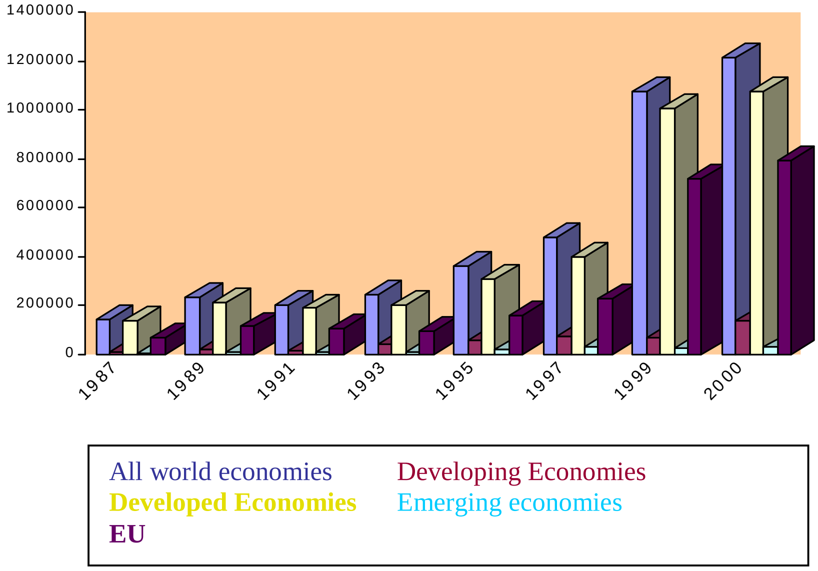


Figure 6. Foreign direct investment flows (output) by types of Economies in the period 1987-2000

(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

After 1999, global sales of subsidiaries of transnational corporations have always been more than two times higher than world exports, making direct foreign investments more important than trade in terms of provision of goods and services to foreign markets.

The first decade of the twentieth century was characterized by tortuous evolution of global FDI flows. From a peak level reached in 2000, was passed in the period 2001-2004 the reduction in volume of world FDI flows in 2002, reaching the lowest level, as in 2006 to resume its upward trend, exceeding even in 2000, and in 2007 to a record high.

The global economic crisis has temporarily halted this trend, but the medium term it will certainly be resumed. Overcoming the crisis will bring about a change of the global economic order, but this will not only be able to influence positively the role played by FDI in the world economic circuit.

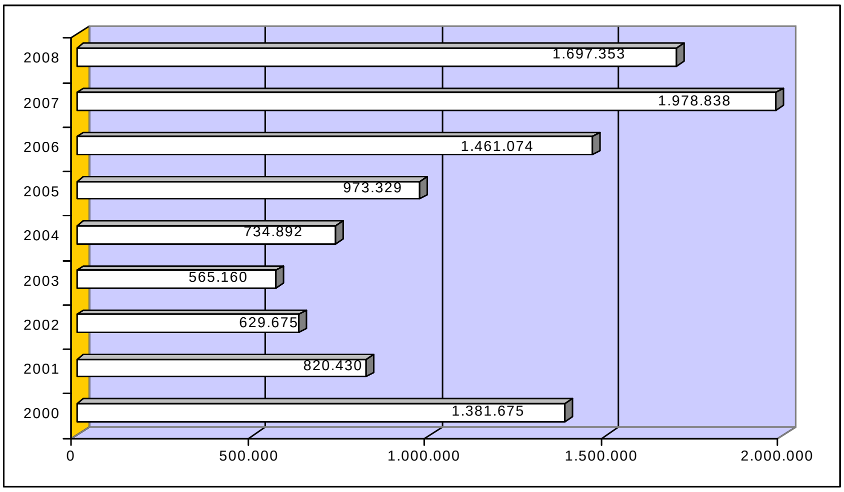


Figure 7. FDI flows (inflows) in 2000-2008
(U.S. dollars at current prices and exchange rates in force, in millions)
Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

It seems that foreign direct investment peaked in 2007. FDI inflows at global level in 2007 increased with 30%, reaching the unprecedented number of 1.978 billion USD in the annual report elaborated by the UNCTAD.

The 2007 flows surpassed the previous record held since 2000 by almost 600 billion USD, despite the global financial and credit crisis that began in the second half of the year. However, global economic downturn caused a reduction in FDI in 2008.

Table 1 - FDI flows (inflows) on the types of economies in the period 2000-2008
(U.S. dollars at current prices and exchange rates in force, in millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing Economies	256.883	215.421	175.935	183.994	290.397	329.292	433.764	529.344	620.733
Transition economies	6.998	9.725	11.293	19.901	30.308	30.948	54.548	90.866	114.361
Developed Economies	1.117.795	595.284	442.448	361.265	414.186	613.089	972.762	1.358.628	962.259
Emerging economies	104.448	88.672	64.930	58.259	96.136	86.982	109.946	147.991	151.359
EU	680.729	378.322	308.738	259.424	223.341	498.440	590.305	842.311	503.453

Source: UNCTAD, Major FDI indicators (WIR 2009)

FDI inflows to developed countries reached 1.358 billion USD in 2007. United States remained the largest recipient of FDI, followed by UK, France, Canada and the Netherlands. Being at the epicenter of the crisis, developed countries have suffered a contraction in total FDI inflows in 2008, which can not be said about developing economies, which have begun to feel the impact of the crisis later.

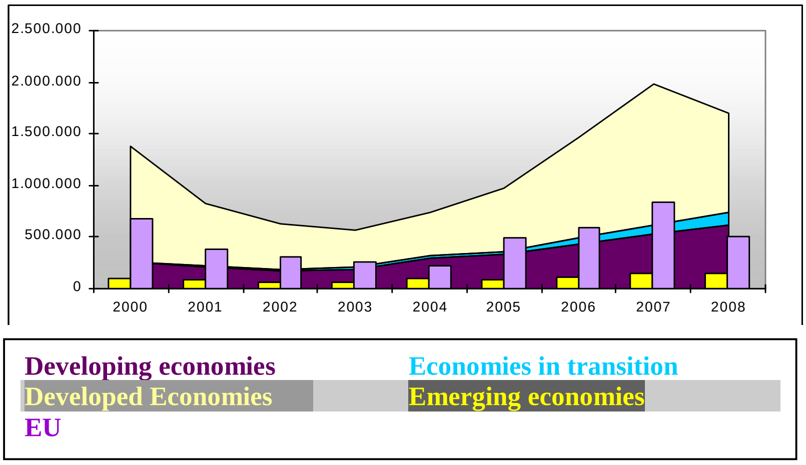


Fig.nr. 8 - Evolution of FDI flows (inflows) on the types of economies in the period 2000-2008

Source: made by author based on data from the above table

(U.S. dollars at current prices and exchange rates in force, in millions)

FDI inflows into developing countries reached their highest level of USD 529 billion, an increase of about 21% over the previous year. While South Asia, East, South-East Asia and Oceania are responsible for half of all FDI in developing countries, Latin America and the Caribbean recorded the largest increase, 36%. Inflows to West Asia have increased in recent years and they have exceeded those to Africa from 2004. However, investment in Africa also reached on an unprecedented level. In plus, least developed countries attracted 13 billion USD of FDI in 2007, once again a record number.

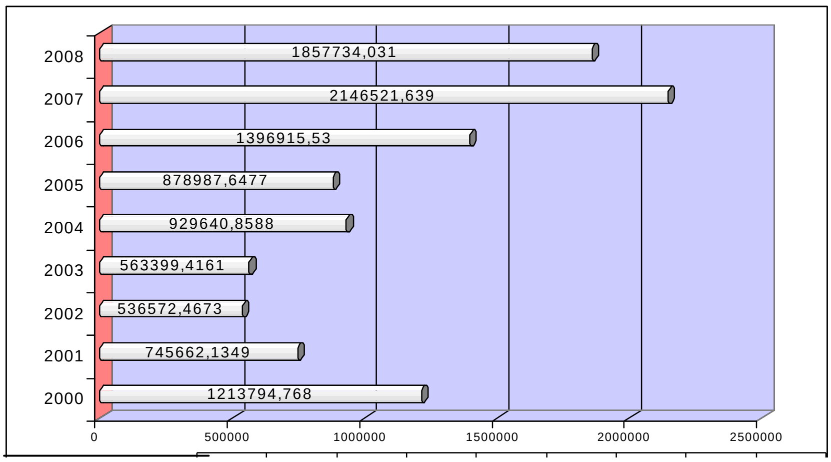


Figure 9. Foreign direct investment flows (outputs) in the period 2000-2008

(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

FDI outflows from developed countries increased even faster than inflows, exceeding them by more than USD 450 billion in 2007. Here too USA has maintained its position as the largest source of FDI. Developing countries have continued to gain in importance as sources of FDI, with investments reaching 285 billion USD, mostly as a result of outward expansion of transnational corporations in Asia. Between developing economies and transition, the top three largest beneficiaries of FDI from developing countries were China, Hong Kong and the Russian Federation.

Situation of FDI outflows in the period 2000-2008, on different types of economies are as follows:

Table 2. Flows of fdi (output) on types of Economies in the period 2000-2008
(U.S. dollars at current prices and exchange rates in force, in millions)

Anul	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing Economies	134.799	82.882	49.642	45.540	120.445	122.707	215.282	285.486	292.710
Developed Economies	1.075.804	660.034	482.283	507.183	795.061	741.972	1.157.910	1.809.531	1.506.528
Emerging economies	27.005	32.553	15.014	17.736	41.280	37.678	75.450	84.032	79.025
EU	795.250	429.725	264.763	285.030	377.329	609.733	697.193	1.192.141	837.033

Source: UNCTAD, Major FDI indicators (WIR 2009)

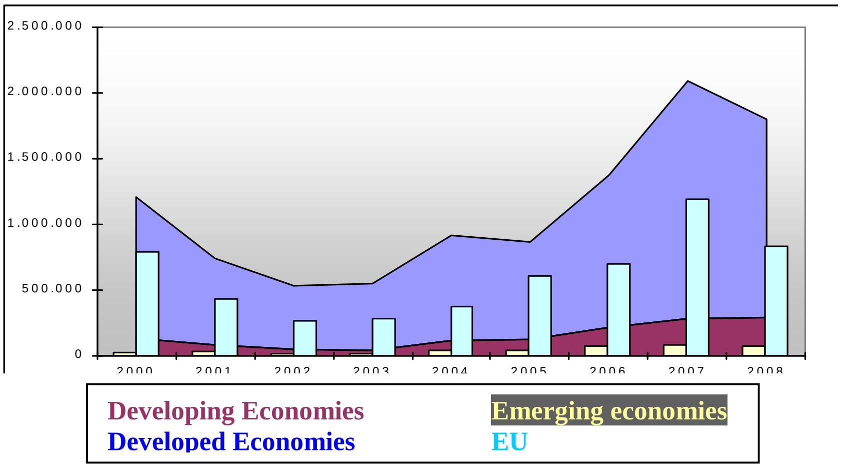
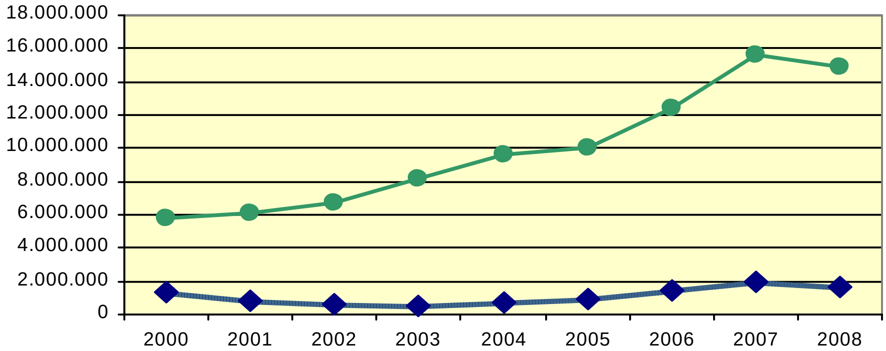


Figure 10. Evolution of FDI flows (output) on types of economies in the period 2000-2008
(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on data from the above table

Regarding the stock of FDI global level, it also reached a maximum level in 2007, which reflects the scale of the activities of nearly 79.000 transnational corporations around the world that own about 790,000 foreign affiliates. Sales, value added and exports of these subsidiaries have increased by 21%, 19% and 15% in 2007.

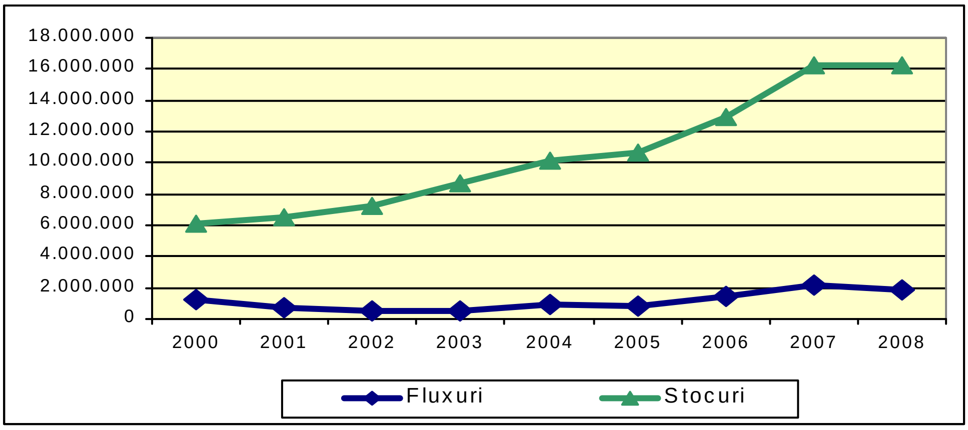


Flows **Stocks**

Figure 11. Evolution of FDI flows and stocks (entries) in the period 2000-2008
(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

Year 2008 marked the end of a cycle of increasing foreign direct investment at global level, with global flows decreasing with more than twenty percent. As a result of the global financial crisis, the ability of companies to invest decreased by reducing access to financial resources, both internally and externally, and their tendency to invest has been seriously affected by the collapse of economic growth prospects and risks.



Flows **Stocks**

Figure 12. Evolution of FDI flows and stocks (output) in the period 2000-2008
(U.S. dollars at current prices and exchange rates in force, in millions)

Source: made by author based on UNCTAD data, Major FDI indicators (WIR 2009)

The current global financial crisis is probably the most severe for global financial system from one that started the Great Depression of 1929. This went much further of the financial sector and seriously affected the real economy.

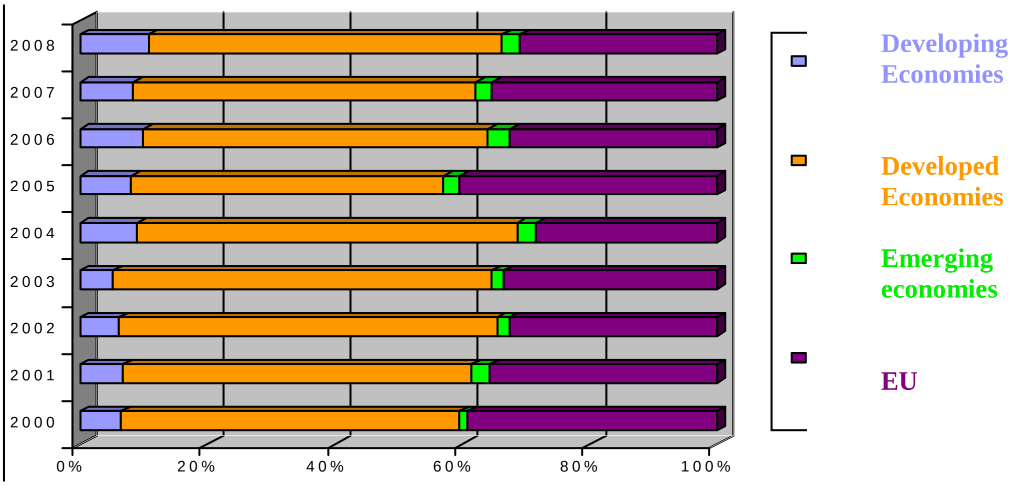


Figure 13. The percentage of FDI flows (output) on types of economies in the p
2008 (% of total)

Source: made of author based on UNCTAD data, Major FDI indicators (WIR 2009)

Unprecedented levels of cross-border fusions and acquisitions, reflecting a continuous trend of consolidation of companies, contributed substantially to the overall increase in FDI. Therefore, cross-border mergers and acquisitions, which have been involved in investment funds almost doubled, reaching USD 461 billion, another record, being responsible for more than a quarter of the value of these transactions around the world.

A new feature of global FDI is the emergence of sovereign investment funds in the position of direct investors. Although the amounts run by sovereign investments under the form of FDI remain relatively low, they have been growing in recent years.

Mortgage crisis that occurred in the United States in 2007 has affected financial markets and created liquidity problems in many countries, leading to a higher credit costs. However, the ability of firms to invest abroad appears to have been the least affected. The sudden depreciation of the dollar has stimulated FDI in United States. Overall trend of government policies remain as an open gate for FDI. UNCTAD annual study on changes that have occurred in national laws and regulations that may affect investments and operations of transnational corporations suggests that the national authorities continue to transform investment climate of their countries into one attractive to TNCs. In 2007, from almost 100 policy changes identified by the UNCTAD as having potential influence on FDI, 74 proposed to transform the economic environment of the host country into economic environment more conducive to foreign direct investment, despite concerns and political debate multiplication regarding the development of protectionism.

The slower growth and financial disorder in the global economy has led the financial liquidity crisis and credit markets in many developed countries, which led to a significant decrease in mergers and acquisitions activities. In the first half of 2008, the value of these transactions has been with 29% lower than in the second half of 2007. UNCTAD estimations regarding the decrease of about 10% of FDI flows in 2008 compared by the 2007 have come true, and then, these estimations are not more optimistic implying a higher prudence on the investments plans of TNCs.

However, foreign direct investments continue to gain importance as a form of international economic transactions and as an instrument of international economic integration. The financial motivation bases investment decision for both investors and the recipient country.

In what concerns the foreign investor, it is important for him:

- financial benefits in the form of dividends which can distribute them totally or in certain proportions, according to the laws of the host country of the investment;
- tax benefits as reductions and exemptions of taxes, customs taxes etc.;

- monetary benefits in terms of foreign exchange and banking services.

If we consider the recipient country of investments, financial strategy aims to increase profit the companies made by foreign investment, the possibility to collect the taxes immediately (VAT, payroll taxes, lands, etc.) or in the future, after passing the exemption period.

However, ultimately, the effective flows of FDI to the receiving countries depend on the investment decisions that transnational corporations takes, decisions that are influenced by the many factors and which operates on two different channels, but intimately connected:

- the level of macroeconomic and political factors, whose influence on decision-making in international investments can be evidenced and understood by the specific instruments of the general country risk analysis;
- the level of microeconomic factors, whose influence is highlighted by company specific risk analysis.

CONCLUSIONS

Therefore, for better understand the delicate and complex mechanisms of decision-making must to know insights the influence factors mentioned.

Like other of economic activities, foreign direct investment has gone through dramatic changes since the end of 2008. Unusually size of economic and financial crisis in progress raises major problems regarding the tendency and the ability of TNCs to continue to invest and expand abroad. Declining profits, reduced access to financial resources, declining market opportunities and risking possible worsening of the current global of economic downturn are obvious causes for decline in FDI flows. Declining profits, reduced access to financial resources, declining market opportunities as well as the risk of worsening of the current global economic recession are obvious reasons for decrease of FDI flows. This, in turn, causing concern among host countries, especially in developing states, which are based heavily on the international investments for finance economic growth and creating new jobs.

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