

Foreign Direct Investments Expansion – Essential Globalization Factor*

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Abstract. *We live in a time when the world economy is constantly changing. Foreign direct investments is one of the most dynamic part of the world economy and in a continuous globalization, those international financial flows determining the traders to know their defining elements and to adopt a specific management in the international affairs field.*

We are viewers of an unprecedented expansion of foreign direct investments, essential factor of the globalization development process. The paper analyzes the evolution of FDI so far, along with a brief illustration as the main trends of international financial flows for 2010 and 2011.

In the context of economic globalization, it is absolutely necessary to clear out a study on the various economic activities, especially on the differences between countries. The analysis of these differences is particularly important as it helps improve and optimize the strategies adopted by foreign transnational companies.

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In the past 15 years, one observes that most companies in emerging countries, characterized by a great expansion, have adopted in the first phase of their existence, corporate strategies that gave them the opportunity to become global companies. According to surveys, after reaching the first goal, becoming a multinational or a transnational company, they have developed new business models beyond the classical principles and strategies. It is anticipated that in the coming decades, the strategies of emerging companies will be influenced by functional specialization, which, according to experts, influence the process of globalization.

The analysis of strategies adopted by companies in emerging countries is absolutely necessary because the results cannot be overlooked. For example, until 2004, only five Asian companies were part of the top 100 transnational companies. The study was carried out by UNCTAD and the identification criterion was the size of foreign assets. In 2006, 14% of world total FDI came from emerging countries.

In the global economic crisis, foreign investment flow analysis is a dynamic element that can help the economy of a country. This is not the first time when the world economy is facing recession, but it happens after many years, namely after the Great Depression that began in 1929 and after Breton Woods System Fall in 1971. In addition, we can say that it is for the first time after a long period when the crisis is located at the level of developed countries, not only in emerging economies.

The FDI expansion is indeed a fabulous one, aspects of their development periods of time are presented in detail in this paper. In the last decades of the twentieth century, international investment flows have risen to unprecedented growth. The climax was reached in 2000, next period representing a regression of foreign investments. From 2003 to 2007, it was a period marked by a continuous expansion and increase flows until 2008, when the global economical crisis has had an impact on the entire world economy, including foreign direct investments.

Undoubtedly, the world economic crisis had a negative effect on FDI. The negative impact mostly consisted of two elements, namely: reducing access to financial resources, which affected the ability of firms to invest, and the tendency of companies to invest because of gloomy prospects for the economy, markets and risks.

Keywords: FDI; cross-border acquisitions and mergers; transnational companies; internationalization; trans-nationalization of the production process.

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Introduction

In the last period of time, the main feature of globalization which manifested visible was the world capital trend of moving from the stage of internationalization to the stage of trans-nationalization. This transition has been favored as a part of world trade, but the decisive factor was the trans-nationalization of production, which inevitably led to the trans-nationalization of capital ownership.

The trans-nationalization of the production process has strengthened the unprecedented increase of direct investment flows that have registered, according to UNCTAD, World Investment Report 2007, a total volume of 2.063 billion dollars.

This phenomenon, described above, was globally generalized, the expansion of FDI representing an important determinant of economic globalization. Such investments have helped the countries from all part of the world, regardless of their status, whether developed countries, developing countries or countries undergoing a transition to a market economy to record strong growth compared to previous years. Year representative to illustrate the expansion of FDI was 2006, when FDI flows rose by 38% over 2005. These flows have had an upward trend in all three categories of countries, being wide differences between countries or regions.

1. The evolution of the FDI flows

When we talk about the foreign direct investment global evolution, because the growth of these flows is an important determinant of economic globalization, we should illustrate their trends in all three type of countries, namely developed countries, developing countries or developing countries that are in a transition towards a market economy.

As mentioned, 2006 was a year when FDI flows have raised significantly compared to previous years, which makes it a reference year. During this period, inflows into developed countries increased by 47%, reaching a turnover of \$ 857 billion, those to developing countries increased by 21% and in the process of transition towards a market economy increased by 68%, record growth rates for this category of countries. Among developed countries, USA managed to regain leadership in attracting FDI, after 2005 when the leadership has been overtaken by Britain and the European Union after an investment rate of 41% that became the most representative region for FDI. As it can be observed during this time in developed countries, FDI are attracted by relatively

high proportions, but two thirds of total FDI flows are held by developing countries.

Developing countries were a major attraction for foreign investors. The proportion of foreign direct investment attracted by this small group of countries show differences according to region and country. Therefore, attempts to illustrate the geographical areas. The most attractive region was represented by South Asia, East and South-East Asia and Oceania, where FDI inflows have registered a rate of \$ 200 billion, which means an increase of 19% over the previous year. From this group of countries most attractive to investors remain China, Hong Kong and Singapore.

Regarding Latin America and countries that have experienced increases in investment, we can mention Brazil, which benefits from an increase of 25% over the previous year, Mexico, which maintains its share of FDI flows in 2006 like in 2005.

Africa, thanks to its oil resources, succeeds to attract investments, especially from transnational companies, the flows being concentrated in West, North and Central Africa, of course, in the areas rich in oil or areas industrialized from this point of view. And with regard to Eastern Europe, Russian Federation is the most significant host country of these investment flows.

We can see that there is global growth in 2006, especially illustrated by the evolution of FDI flows. During this period, numerous transnational mergers and acquisitions took part, part of these flows, stimulated by the existence of significant corporate profits. Which factors would still be contributing to these feeds?

Many economists believe that the dollar depreciation has caused on one hand the US to attract investments, especially in the euro and yen area. According to UNCTAD reports, the 2006 data are not very different from those of the '90s, which indicates that the euro appreciation or dollar depreciation, shall not strictly affect the evolution of FDI flows. In these circumstances, the European transnational companies which have invested in USA and Japan have not been determined by the appreciation of the euro against the dollar or yen. In other words, we observe that in this period the transnational companies, the main actors of these direct investments are not negatively or positively influenced by the currency appreciation or depreciation. It can be said that these companies have reached a certain level of integration, which provides safety, regardless of economic phenomena.

Regarding mergers or foreign acquisitions, we might mention that they have increased worldwide by 23% over the previous year, USA being the leader in the group of developed countries thanks to the mega-acquisitions that have

been done in Canada, followed by European countries, where purchase value decreased from \$ 19 billion in 2005 to 10 billion dollars in 2006.

Group of developing countries and economies in transition was noted in this period mainly due to numerous mergers and acquisitions that have been made mostly in the Asia and Eastern Europe. In this area is specific the economic growth rate, especially that of China, India and Russian Federation.

According to UNCTAD the most important and very significant acquisitions made in the global economy at that time were: in China, “China National Petroleum Corporation” acquired PetroKazakhstan for \$ 4.1 billion in 2005, while Sinopec has bought “Russian-United Kingdom joint venture Udmurtneft” for the amount of \$ 3.5 billion in 2006. Other Russian companies as Gazprom, Rosneft and Lukoil began their expansion in Europe, Gazprom making investments in the energy sector in Germany, and “Russian Aluminium” buying a part of the “Glencore International” (Switzerland) for \$ 2.5 billion and “CTF Holdings” (Alfa Group) purchase “Turkcell Iletisim Hizmetleri”, a Turkish telecommunications company for \$ 1.6 billion.

In the beginning we discussed about the trans-nationalization of production process, which is leading to a transition of the capital from the stage of internationalization to the stage of trans-nationalization, however, the role of this process is above the transition of the capital, because it allows to keep the control on the global economy, the evolving economy, just by increasing the volume of assets held abroad, stock which reached in 2006 \$ 11.999 billion (World Investment Report, 2007).

For host countries, the benefits can be multiple, but most important is the number of persons who are employed in foreign subsidiaries (this number is an indicator that reflects the impact of FDI flows on employment, in 2006, 3% of total force work was employed in the transnational companies). Also, the parent companies' ability to influence trans-border production growth is another indicator that reflects the influence of FDI on the global economy. FDI flows determined the intensification of the relations between the most important origin countries of FDI and the various host countries, which leads to the following conclusions:

- the US relations developed with the host countries such as Canada, Britain and Japan were much more extensive in 2005 than in 1995. In addition, other relationships with host countries in Europe, like Sweden and Switzerland, expanded.
- Japan's relations with the developing countries in Asia have increased, except Hong Kong and Indonesia; Japan also managed to expand its relations with host developed countries like Australia and the USA.

- the relations between the EU countries have intensified, which shows the traditional trend, namely the regional FDI flows between EU countries.

As said above, it seems that the trends of developing countries are FDI flows based on neighborhood politics. For example, the US encourage the growth of FDI flows with Canada, Latin America, to a greater extent than in other European countries. The same goes for Japan.

2007 was a year of steady growth of FDI, even though in its second half the financial crisis began. As a result we can say that globally FDI flows rose by 30% to a rate of \$ 2.063 billion. In addition, reinvested profits accounted for 30% of total FDI. Cross-border acquisitions and mergers again led the overall increase in FDI, their share being \$ 1.637 billion. Even if the financial crisis started in the second half of 2007, this has not influenced the global acquisition such as ABNAMRO Holding NV acquisition by Royal Bank of Scotland, Fortis and Santander or acquisition of Alcan (Canada) by Rio Tinto, England.

All this FDI considerable development over the years has been influenced by favorable policies adopted by UNCTAD member states, a body that monitors and develops a climate conducive to positive development of these flows. There are some countries where legislative changes have negatively influenced FDI by reducing their weight, especially those in Latin America.

Table 1

FDI flows in 2007-2008

\$ billion

Region/Country	FDI flows		
	2007	2008	Growth (%)
Global	2063.4	1868.9	-9.4
Developed countries	1743.4	1536.4	-11.9
Europe	1270.7	990.3	-22.1
USA	313.8	298.6	-4.8
Japan	73.5	127.4	73.2
Developing countries	268.8	274.1	2.0
Africa	5.3	-	-
Latin America	52.1	36.1	-30.7
Asia and Oceania	211.4	239.6	13.4
West Asia	44.8	-	-
South, East and South East Asia	166.5	185.2	11.2
Countries undergoing a transition to a market economy	51.2	58.3	13.9

Source: UNCTAD.

2008 marks the end of a cycle of expansion of foreign direct investment, cycle that began in 2004. Of course, FDI flows during this period showed a reduction of 10% compared 2007. The contraction of production, major layoffs and the investments cut have generated a considerable reduction of the cumulative value of cross-border mergers and acquisitions by 29% to about \$ 1200 billion in 2008.

UNCTAD, as an international institution, has made at the end of 2008 an analysis concerning the trends that the FDI will record from 2009 until 2011. We stood still in this period of time, we make a separate perspective presentation, just to illustrate and identify the current and future flows trend.

2. FDI prospects analysis from 2009 until 2011

2009 was a year of considerable reduction in the FDI flows area, continuing their trend to be like in 2008, according to UNCTAD, World Investment Prospects Survey 2009-2011, June 2009. In 2009 there have been analyzed data from 26 states and we could observe that 21 countries have recorded decreases in investments, countries such as France, Germany and Japan. In 2009, FDI flows fell by 46% over the same period of 2008 in emerging countries and by 57% in developed countries. The results of 2009 show negative effects of FDI flows, their reduction being a drastic one.

According to the statistics obtained from transnational companies, UNCTAD predicts that in the current period, 2009-2011, companies in emerging countries from Asia and the North American companies will continue to invest registering record growth due to stable business environment and favorable policies for foreign investment. In addition, they appear optimistic about its corporate investment in Japan and Europe. Emerging Asian companies want to expand investments in 2011, 57% of Asian companies will adopt internationalization strategy.

As Asian companies, transnational companies in the US and Canada have a very optimistic view on the revival of foreign investments, 71% of all companies wishing to internationalize their business in 2011, considering this process as an opportunity to reduce costs. As you can see, internationalization is seen by North American companies as a way to reduce costs and increase their efficiency.

Japan is not so optimistic, because the US economic crisis has influenced in a negative way FDI flows, 73% of Japanese transnational companies being affected by this economic phenomenon, especially because of the many exports that Japan made in the USA. Japanese hope for a moderate recovery of FDI for 2011.

The situation in Europe is quite different because of the economic crisis being felt strongly by European countries. If the vision of companies in the countries of Asia and North America is an optimistic one, European countries are pessimists, especially because it is expected to return to their minor costs of FDI to a minimum after their fall in 2009. However, there are exceptions, such as Germany, where companies, such as Volkswagen AG, wishes to realize ambitious investments.

The most affected sectors were represented by: automotive, chemicals, metal products, machinery and equipment manufacturing sector. On the other end, the telecommunication, services, pharmaceuticals, food products were less affected by financial crisis.

As a conclusion, the prospects made by UNCTAD show that 2009 represented a flare period of the 2008 effects, continuing the negative effects of financial crisis and 2011 will be a revival of FDI flows, generally speaking all the countries have an optimistic view.

Conclusions

Trans-nationalization of production, strengthened on the FDI flows trends, has helped the countries of the world, regardless of their status, developed countries, developing countries or countries undergoing a transition to a market economy to record strong growth previous years. Since 2004, we can say that a cycle of growth began in foreign direct investment, FDI flows reached significant levels in 2006 and 2007, the cycle ended in 2008. During this period all three groups of countries have beneficial results in terms of FDI. Developed countries still dominate the FDI flow statistics, but are closely followed by the developing countries, particularly Asian, which identify themselves as attractive markets for investors.

Also in this period, 2004-2008, there are important cross-border mergers and acquisitions, which in 2007, the year of maximum expansion of FDI, registered a world record levels of \$ 1,699 billion. It may be recalled by the

mega-acquisitions made by USA in Canada, and by China on the Asian continent.

The FDI flows growth cycle is ending in 2008, when financial crisis makes its impact felt, so, according to the statistics made by UNCTAD, it can be seen drastic cuts of investments in all countries, reduction of 10% of flows compared to 2007, but also a reduction in cross-border mergers and acquisitions by approximately 29% over the previous year.

In 2009 the downward trend in FDI worsens, North American and Asian countries are showing a positive attitude, willing to adopt the strategy of internationalization in 2011 in order to minimize costs and increase efficiency. Japan is skeptical, still suffers from massive exports made in the US during the crisis, but with the desire to maintain a moderate level of direct foreign investments for 2011. European countries are pessimistic with regard to FDI.

With regard to the FDI flows future, we can make predictions only after we have access to data recorded for 2010, data that will be available after October 2010, according to UNCTAD.

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