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The Evolution of FDI in the Context of Globalization

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Abstract: The importance of studying globalization under its most important aspects in economic terms is relevant in terms of the major influences that determine them as operating environment, development and manifestation of a country's economy. Globalization is a current, continuous process, accompanying the evolution of the society, the changes they produce are different from those prevailing in the first decades after the second world war. In the specialized literature there are presented the views according to which globalization can be defined in different ways depending on the considered level. In accordance with these views, we may speak of the globalization of the world, into a single country, of a certain industry, of a corporation or a business relationship or functions within a company. In our paper globalization refers to increasing the economic interdependence between countries, reflected by increasing the cross-border flows of goods and services, capital and know-how, the volume of incoming and outgoing flows of foreign direct investments. At the level of a certain country, globalization refers to the extension of the interconnections between the economy of a country and the rest of the world. In this regard, it is noteworthy that, despite the increasingly globalized world, not all states are equally integrated into the global economy.

Keywords: globalization; cross-border trade flows; foreign direct investment; the regional distribution of FDI; set of sustainable development goals

1. Introduction

The origins of globalization as it is currently known, are not new, however, the increasing dynamics of globalization is relatively recent.

Globalization becomes a process of creating a global dimension, with immunity and own structure in every aspect of a state in which the whole world is identifiable in itself, with its own economic mechanisms, and other subsystems of the new assembly, such as: culture, technology etc.

As an expression of globalization, dynamism of the national firms, their ability to invest and innovate, both through its own resources and by acquiring appropriate technology had led to expansions and operational relocations, beyond borders and thus contributing to the enhancement of the

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competitiveness of national economies of origin, the paid price being more obvious dissolution of national immunity of the companies concerned.

Figure 1. The Complexity of globalization

Source: Author's own processing

Globalization can rightly be described as representing a rupture of trend towards the earlier developments that characterized the period after the Second World War. In this sense, there can be identified few defining features of globalization, that determine if to be the "new change" in the evolution of human society, the constituent element of all these features being represented by the erosion process of borders.

Professor Joseph E. Stiglitz, winner of the Nobel Prize for Economics in 2001, said that the globalization phenomenon "is the stronger integration of countries and their populations as a result of significantly reducing the transport and communication costs and thus eliminating the artificial barriers from the way of movement of goods, services, capital and (to a lesser extent) of people between countries." He also said that globalization is a growing economic interdependence between countries in the world due to the high volume of varied transnational transactions, international flows of capital and the rapid spread of technology. (Streeten, 2001) In general it is considered that globalization uses the following development sources: international trade, the rapid movement of capital and financial market integration, labor migration. Globalization represents "the emphasis process on the interdependence between economies worldwide, through sustainable development of trade in goods and services and the development of foreign investment flows". (Shariff, 2003) Other interesting aspects on Globalization are noticed also by other authors.[1]

Globalization refers to the increasing economic interdependence between countries, reflected by increase of cross-border flows of goods and services, capital and know-how. Part of the evidence in support of these developments can be found in the following data[2]:

- In 1970, cross-border transactions in the capital markets with bonds and shares with a percentage of GDP stood under 5% in the US, Germany and Japan. For 1996, the shares corresponding to these countries had grown to 152%, 197% and 83% respectively.
- From 1989 to 1994, foreign direct investment increased from 4.8% to 9.6% of global GDP;
- In the period 1989-1996, cross-border trade in goods and services increased by an average annual rate of 6.2%, almost double the average of the annual growth rate (3.2%) of the world GDP in the same period.

[1] (Bari, 2001; Uslaner & Brwon, 2005, pp. 868-894; Marin, 2004; Herz, 2006; Roman, 2006; Voinea, 2007)
[2] OECD

Since the 2000s, the role of extra-community markets for the EU trade has increased. Although the single internal market still captures most of EU trade flows, the extra-community exports and imports recorded shares increasingly higher in the total flows.

At the level of 2013 (Eurostat), the exports of extra-community goods accounted a share of 35% of intra and extra EU exports, and the corresponding imports was of 38%. The situation is similar in terms of trade in services, except the fact that the percentages are slightly higher, and the export quotas in extra-community flows exceed those of imports (about 43% for exports and 41% of imports). These trends highlight the growing importance of EU import sources and markets outside the Union. At the level of trade in goods, the BRIC group in 2013 has had a share of 25.2% in EU trade, outpacing even this share of the group of countries of the North American Free Trade Agreement (NAFTA), 18.7% of the total. In 2013, the EU's main trading partners in the sphere of goods were: USA (15.9% of total), China (12.9%), Russian Federation (7.9%), Switzerland (7.1%), Norway (4.6%), Japan (4%), Turkey (3.5%), South Korea (2.3%), India (2.3%) and Brazil (2.1%). In contrast, trade in services has been dominated by the US (27.5% of total) and Switzerland (12.4%), China, Russia, India, and Brazil having much lower rates: 3.5%, 3.3 %, 1.8% and 1.7%.

Global Trends on FDI

At the level of a certain country, globalization refers to the extension of interconnections between the economy of that country and the rest of the world. In this regard, it is noteworthy that, despite the increasingly globalized world, not all states are equally integrated into the global economy.

This can be highlighted by several key indicators to measure the global integration degree of a country, such as the share of exports in GDP, the volume of inflows and outflows of foreign direct investment and portfolio inflows, and the size of ins and outs flows of payment as royalty associated to the international technology transfer.

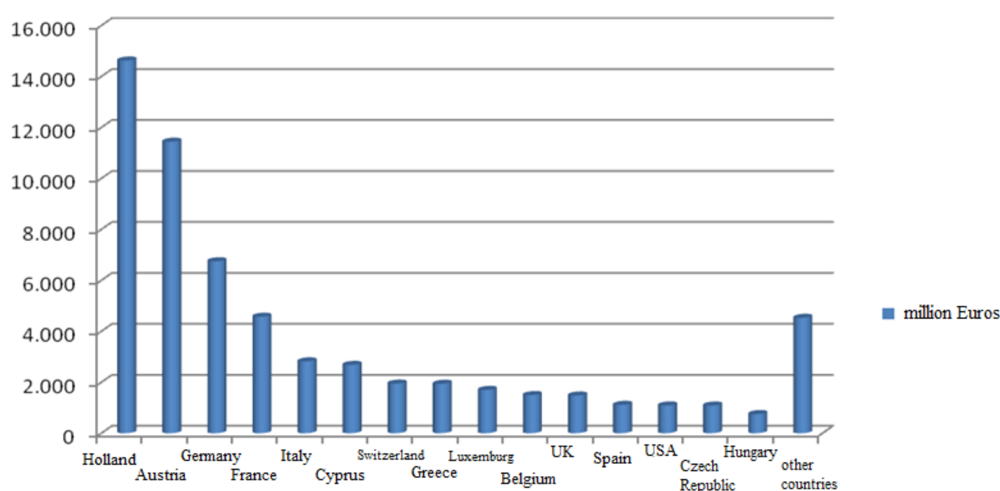

Figure 2. Foreign Direct Investment by country of origin

Source: NBR

According to the World Investment Report 2014 issued by UNCTAD (United Nations Conference on Trade and Development), the optimism returns cautiously regarding the dynamics of foreign direct investment (FDI) worldwide.

By 2012, the global FDI resumed its positive trend, with an increase of 9% in 2013, i.e. 1450 billion dollars. The projection for the coming years of the UNCTAD is that FDI flows could rise to 1750 billion in 2015 and 1850 billion in 2016, with relatively higher growth in the developed countries.

The growth will be determined mainly by investments in economically developed economies, due to their recovery and development. As a result of expected growth on FDI in economically developed countries, the regional distribution of FDI could lean backwards towards the "traditional model", which will hold a larger share in global flows; the FDI flows towards the developing economies will remain at a high level in the coming years.

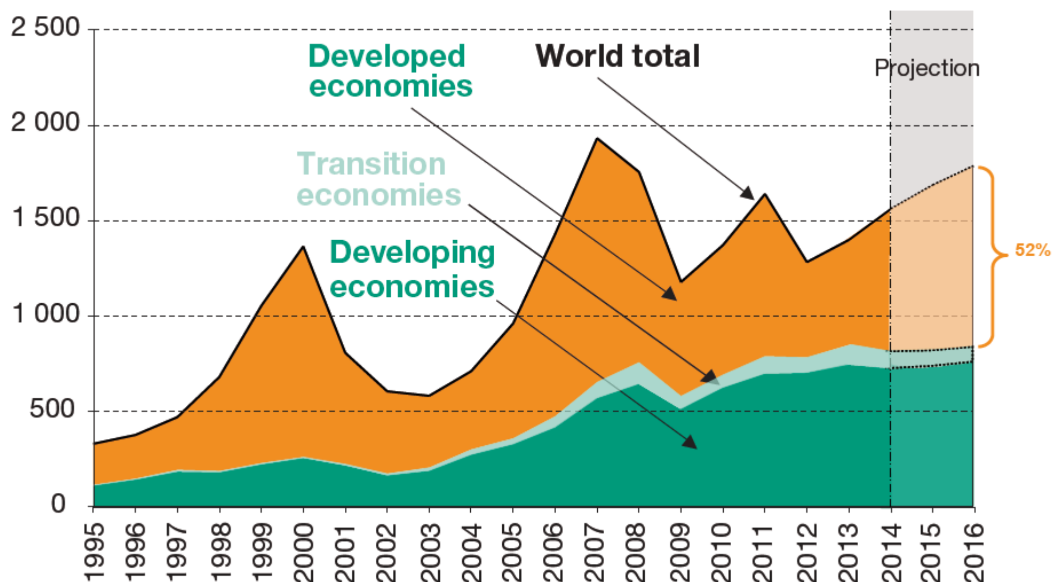

Figure 3. FDI inflows, global and categories of economy in 1995-2013 and 2014-2016 projection

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

Developing countries and economies in transition represent now, half of the top 20 economies ranked by the FDI entries. China recorded the largest FDI inflows ever and it maintains its position as the second largest recipient of FDI in the world, after the United States.

Asia continues to be the region with the largest FDI inflows, well above the EU which was traditionally the region with the largest share of FDI worldwide. The FDI inflows increased also in other major developing regions, Africa (to 4%), Latin America and the Caribbean to 6%, excluding the offshore financial centers.

Region	FDI inflows			FDI outflows		
	2011	2012	2013	2011	2012	2013
World	**1 700**	**1 330**	**1 452**	**1 712**	**1 347**	**1 411**
Developed economies	880	517	566	1 216	853	857
European Union	490	216	246	585	238	250
North America	263	204	250	439	422	381
Developing economies	725	729	778	423	440	454
Africa	48	55	57	7	12	12
Asia	431	415	426	304	302	326
East and South-East Asia	333	334	347	270	274	293
South Asia	44	32	36	13	9	2
West Asia	53	48	44	22	19	31
Latin America and the Caribbean	244	256	292	111	124	115
Oceania	2	3	3	1	2	1
Transition economies	95	84	108	73	54	99
Structurally weak, vulnerable and small economies[a]	**58**	**58**	**57**	**12**	**10**	**9**
LDCs	22	24	28	4	4	5
LLDCs	36	34	30	6	3	4
SIDS	6	7	6	2	2	1
Memorandum: percentage share in world FDI flows						
Developed economies	51.8	38.8	39.0	71.0	63.3	60.8
European Union	28.8	16.2	17.0	34.2	17.7	17.8
North America	15.5	15.3	17.2	25.6	31.4	27.0
Developing economies	42.6	54.8	53.6	24.7	32.7	32.2
Africa	2.8	4.1	3.9	0.4	0.9	0.9
Asia	25.3	31.2	29.4	17.8	22.4	23.1
East and South-East Asia	19.6	25.1	23.9	15.8	20.3	20.7
South Asia	2.6	2.4	2.4	0.8	0.7	0.2
West Asia	3.1	3.6	3.0	1.3	1.4	2.2
Latin America and the Caribbean	14.3	19.2	20.1	6.5	9.2	8.1
Oceania	0.1	0.2	0.2	0.1	0.1	0.1
Transition economies	5.6	6.3	7.4	4.3	4.0	7.0
Structurally weak, vulnerable and small economies[a]	**3.4**	**4.4**	**3.9**	**0.7**	**0.7**	**0.7**
LDCs	1.3	1.8	1.9	0.3	0.3	0.3
LLDCs	2.1	2.5	2.0	0.4	0.2	0.3
SIDS	0.4	0.5	0.4	0.1	0.2	0.1

Figure 4. FDI flows by region, 2011-2013

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

The Mega-regional groups shaping the global FDI flows are the main mega-regional groups in process of training (TPP, TTIP, RCEP) each have at least a quarter of global FDI flows, with TTIP registering a decrease in FDI flows, while the other (TPP, RCEP) are rising.

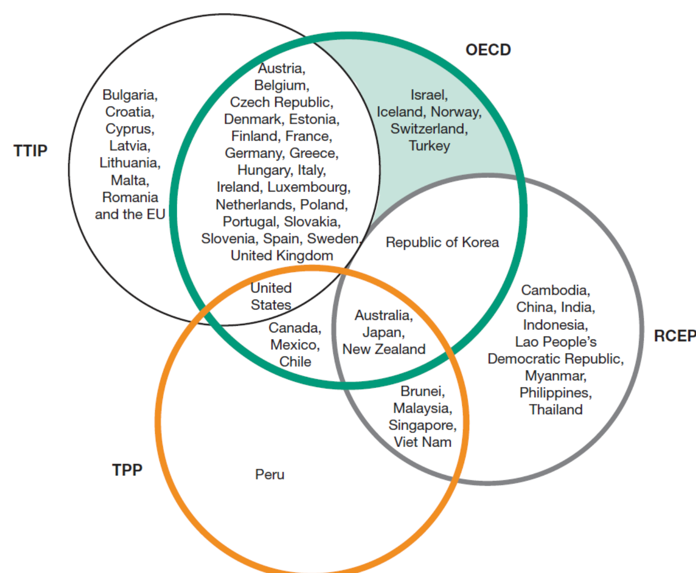

Figure 5. Participation at mega-regions and OECD

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

The Asia-Pacific Economic Cooperation (APEC)[1] group remains the largest regional economic cooperation, with 54% of capital inflows at global level.

Regional/inter-regional groups	Average 2005–2007 FDI Inflows ($ billion)	Average 2005–2007 Share in world	2013 FDI Inflows ($ billion)	2013 Share in world	Change in share (percentage point)
G-20	878	59%	791	54%	-5
APEC	560	37%	789	54%	17
TPP	363	24%	458	32%	8
TTIP	838	56%	434	30%	-26
RCEP	195	13%	343	24%	11
BRICS	157	11%	304	21%	10
NAFTA	279	19%	288	20%	1
ASEAN	65	4%	125	9%	5
MERCOSUR	31	2%	85	6%	4

Figure 6. FDI inflows regional and inter-regional groupings, the average from 2005 to 2007 and 2013

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

Although their share is small, the FDI inflows of ASEAN and MERCOSUR in 2013 doubled compared to the level before the crisis, similar to the FDI inflows of BRICS (Brazil, Russian Federation, India, China and South Africa). The three initiatives of mega-regional integration currently emerging - TTIP, TPP and RCEP - show divergent trends in FDI. The US and EU negotiating the TTIP formation, have found that the combined share of global FDI flows almost halved, from 56% in the pre-crisis period to 30% in 2013. In TTP, the US share reduction is offset by the expanding group of emerging economies, strengthening the aggregate increase from 24% before 2008 to 32% in 2013. The Regional General Economic Partnership (RCEP), which is being negotiated between the 10 Member States of ASEAN and the 6 partners of the Agreement Free Trade Area (FTA) accounted for over 20% of global FDI flows in the recent years almost two times more than before the crisis.

Also we should not forget that, in the period 2005-2013, Romania has benefited from the growth of foreign direct investment which exceeded 35 billion euros over 2 times more than in the entire period 1991-2004.

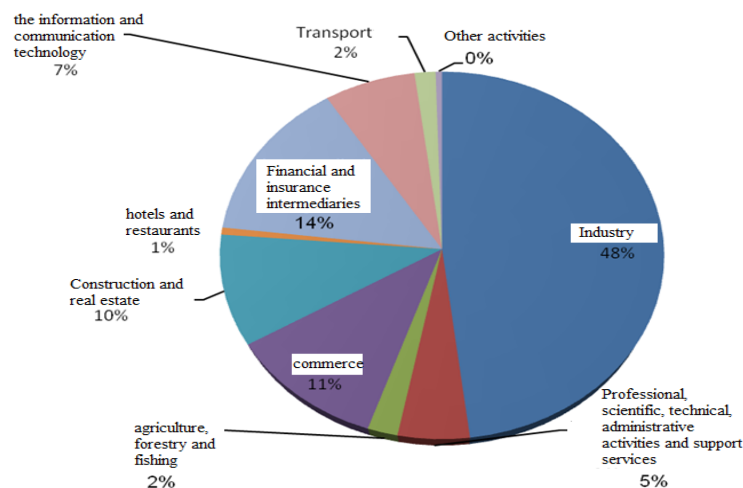

Figure 7. The Share of FDI in Romania, on branches of economy

[1] Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, Vietnam.

Source: Authors' processing author. BNR data source

Faced with common global economic, social and environmental challenges, the international community defines a set of sustainable development goals (SDGs);

They are formulated by the United Nations with the widest range of interested parties and they are designed to stimulate worldwide actions through concrete objectives for the period 2015-2030 for poverty reduction, food security, human health and education, diminishing climate changes and a number of other economic, social and environmental objectives.

Conclusion

The role of the public sector is fundamental and essential, while the private sector contribution is indispensable. The latter can take two main forms, good governance in business practices and investments in sustainable development. Policy consistency is essential in promoting private sector contribution to the GIS.

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