FOREIGN DIRECT INVESTMENTS, PARTICULARITIES FOR EUROPEAN AND COMMUNITY OF INDEPENDENT STATES

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Abstract

This below text treats on foreign direct investments topic. First of all, the foreign direct investments origin was there about three groups of theories, the first one- international trade based one (i.e. works of David Ricardo and Neoclassic Synthesis/HOS), the second one - product life cycle one (i.e. works of Robert Vernon) and the so-called and finally third one- "eclectic paradigm" (i.e. John Dunning) treating from the viewpoint of enterprise (i.e. microeconomic) development up to its international implemented stage. And the last might have continued on a large diversity of theories on multinationals.

On the contrary, our paper will approach a new view point, much simpler, on foreign direct investments flows and stocks at the international scale, as exclusively. This simple description will though challenge the above theories and first by a picture and a few facts reflecting description on all understanding. Theories above might see some of their conclusions here and there completed and/or even contradicted by this paper in context.

Key concepts: *foreign direct investments, direct investments abroad, external balance of payments, economic theories.*

JEL Classification: E22, F21

1. Basics of the study, object and methodology of research

1. Introduction: Flows and stocks

There is obviously no need to re-explain a complex of facts and operations that FDI are. It is reality that all the above theories (in the paper abstract) consider. Here below, in our study these all will simplify by turning FDI into a simple (economic) flow, like foreign trade or other international (over-border) activity as such. Now let us explain the reasons and consequences of such a methodological approach on international investments:

- *Flow* is assumed to be a *substance* that is supposed to be homogenous and unitary world-wide – here instead of an activity or a category of activities with their individual and various pulses -- and then such a substance gets measurable all over
- up to the image in which flow will be, first, owned by the *world,* then distributed by the world's *actors* that will be introduced in the next coming paragraph.
- As a flow, the same world investment will concomitantly break down into *FDI*, the same with *inflows,* as entries, versus *DIA*, the same as *outflows,* as issued direct investment for the same actors.
- In another development, both above in- and out-flows will break down into *flows* themselves, which correspond to annual development(s), versus *stocks* - corresponding to another series numbers of the same successive year development as the series numbers of flows and cumulating flows of the current period with those accounted in all previous periods considered. The specific explanation to considering stocks, instead of flows, is just remaking continuity, instead of so erratic annual flow numbers, be it the one of continuously growing FDI numbers. Plus, capital is supposed to work and depreciate along medium term periods.
- The FDI flow image, again, skips that investment is a dynamic activity in itself and stocks are increasing numbers by flows cumulating. So being, our dynamics will reduce to *ups and downs individual country's percentage points in total FDI/DIA stocks* and

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correspondingly upward/downward position changing in a ranking of world countries, as detailed in the next below paragraph.

- Finally, as a flow, FDI&DIA will just rarely be here seen in any of their external correlations and/or connections with other macroeconomic features and data – there will be basically about *internal correlations of international direct investment,* as equally mentioned below.

2. Our specific FDI&DIA approach

Our studies used the UNCTAD's *World Investments Report* (*WIR /2016)* as primary data source for *directly invested international capital* flows that are provided as *inflows* – that we also called above *foreign direct investments(FDI)*—and opposite *outflows* – that we also called *direct investments abroad (DIA)*. Then, as annually provided FDI&DIA flow amounts appear chaotic all over, i.e. for individual countries, as well as on regions and on the whole world – that is why we preferred *stocks,* instead of flows, as cumulating such flows since 1990, then considering stocks since 1994 and ending interval in 2015, all these for here providing some regularity in numbers.

Two aspects here immediately result. The one is cumulating FDI&DIA flow amounts along a 22 years interval on both *world* – here resulting *world stocks* – and individual *countries* that will so rank amongst according to this criterion. However, this result that is the one of a *static analysis* remains what we called in Andrei & Andrei (2016a) *'tip of the iceberg'* due to its determinants all behind. Let us see in the first place that FDI&DIA stocks get positively growing numbers for all individual countries and total world that are correct or not to be this way approached(E.g. here all depreciation along decades is omitted either for the US$ value, or for individual investments capital themselves).

But the significant aspect here is rather the one that total world and individual country amounts evolve concomitantly, but on different paces, the way that individual countries' FDI&DIA stocks grow more or less than total world ones. And that means *positive,* versus *negative* FDI&DIA *dynamics* of an individual country, plus our dynamics will be measured in terms of world FDI&DIA percentage points[1].

As in the second place, what we called *FDI stocks balance* is considered as inflows minus outflows, of course, in terms of total international direct investing (international invested capital) along the same period. *Positive,* versus *negative FDI balance* mean several judgments for a given country as much as in the above *positive,* versus *negative FDI&DIA dynamics* case. Just here adding that our FDI balance is by far different than that chapter in the external balance of payments (EBP) – i.e. our study is on long term and its surplus, versus deficit mean different things[2].

And let us have just one of the examples that we already met or we equally will meet in this paper below. This is the one *connecting dynamic with balance* in terms of FDI&DIA. Such a connection is both indirect and double. It is indirect due to several other third items here involved – e.g. whereas negative dynamics does not directly mean negatively evolving numbers, corresponding balance could be really negative relating inflows to outflows – and it is double since, on the one hand inflows' and outflows' evolving does influence the balance,

[1] e.g. when (+)0.2%(percentage points) appear as positive dynamic of country X this country succeeds to enlarge its FDI or DIA stocks with 0.2% of total world FDI or DIA stocks more than in case of having performed corresponding world stocks' growing number speed; when, conversely, a country dynamic of (-)0.2 percentage points of world FDI&DIA stocks the country wasn't able to keep pace with the world growing such stocks and so is claimed for negative dynamic etc.

[2] i.e. positive FDI stocks balance is always found in Third World country cases and rarely for strongly developed countries (e.g. Australia, Mexico); negative FDI stocks balance, on the contrary, is for top developed, crowded capital and toughly internationally expanding economies through international capital investing.

but on the other positive, versus negative balance itself will say something about next future inflows' and outflows' evolving as well.

In a word, we appeal to some methodological simplifications reminiscent of mathematical modeling work. First, *FDI&DIA,* meaning *international investments of capital* of all kinds, reduce to just *flows,* an idea that excludes all its diversity, origin revealing, connection with other economic variables, here including what does connect the two chapters of the *external balance of payments* (EBP) and so on.

Second, when only countries, State organizations, States formations (e.g. Euro-zone or EFTA) and/or regions are the *actors* or subjects 'moving' the object that is international capital, such a simplifying is supposed to meet strong contradictions in the camp.

3. FDI actors

Just here continuing the idea of the last above phrase. The above introduced inflows (FDI) and outflows (DIA) here form the *object* of a presumed *investment* activity developed by specific ***actors*** (subjects) that here will be *nations, countries* or *national economies*. In this study, some federations (e.g. US, Canada, Russian Federation and China) and more or less economically integrated regions (the *Euro-zone* and the so called *Other Developed Europe*) will be here assimilated. They do receive FDI/inflows and make DIA/outflows, i.e. directly invest abroad. As already mentioned above, all FDI&DIA so become a world owned *fluid* distributed by countries. And the last, once more, develop FDI&DIA more or less, more or less rapidly and, at the end of a considered long interval, acquires an *FDI stocks balance* that means FDI /inflows minus DIA/outflows. Or, these results are expected to characterize each country-actor for comparisons in context on a simple and well defined common denominator; will depict both economic behaviors, the one of FDI & DIA and the other one of country actors vis-à-vis FDI&DIA. Our work is assumed to be done when the whole FDI& DIA process around the world is deeply depicted and has started by, first, a world-wide approach (Andrei & Andrei 2016a), then continued on geographical and economic regions, e.g. on Euro-zone (Andrei & Andrei 2016b), on the rest of Europe (Andrei & Andrei 2016c), on South-East Europe, on CIS countries and on Near East (Andrei & Andrei 2016d), on Asian regions (Andrei & Andrei 2016f, g) and on regions (Andrei & Andrei 2016d).

4. Developing and conclusions

4.1 The Euro-zone. See the Euro-zone region FDI&DIA situation in Tables 1 and .2.

Table 1. Euro-zone member countries for international capital

Static analysis **=% of world=**

rank	FDI		DIA	
	Name	Amount	Name	Amount
i	Germany	3.6	Germany	6.8
ii	Netherlands	3.3	France	5.9
iii	France	2.8	Netherlands	5.0
iv	Spain	2.7	Spain	3.6
v	Belgium	2.1	Italy	2.5
vi	Ireland	1.7	Belgium	1.7
vii	Italy	1.5	Ireland	1.6
viii	Luxembourg	1.3	Luxembourg	1.5
ix	Malta	0.8	Austria	1.0
x	Austria	0.6	Finland	0.5
xi	Finland	0.5	Malta	0.3
xii	Portugal	0.4	Portugal	0.3

rank	FDI		DIA	
	Name	Amount	Name	Amount
xiii	Slovakia	0.2	Cyprus	0.2
xiv	Greece	0.2	Greece	0.1
xv	Cyprus	0.2	Estonia	0.0
xvi	Estonia	0.1	Slovenia	0.0
xvii	Lithuania	0.1	Slovakia	0.0
xviii	Latvia	0.1	Lithuania	0.0
xix	Slovenia	0.0	Latvia	0.0
-	Euro-zone	21.8	Euro-zone	31.1

Data computed after UNCTAD WIR 2016

Here the top-4 countries – i.e. Germany, France, Netherlands and Spain – keep 56.1% of the region's FDI/inflows and 68.8% of the region's DIA/outflows and make 'the mirror' to all: dynamics on FDI & DIA and FDI stock balances, except for Germany as FDI dynamics leader and Spain as the same on DIA.

Table 2 Euro-zone member countries for international capital dynamics and balances

=% points of world=

Dynamics				FDI stock balances	
FDI		DIA		FDI-DIA	
Name	Amount	Name	Amount	Name	Amount
Germany	2.3	Spain	2.3	Malta	0.5
Belgium	2.1	Belgium	1.7	Belgium	0.4
Luxembourg	1.3	Ireland	1.46	Slovakia	0.2
Ireland	1.1	Luxembourg	1.45	Portugal	0.2
Malta	0.7	Austria	0.35	Ireland	0.1
Cyprus	0.1	Malta	0.31	Estonia	0.1
Finland	0.1	Cyprus	0.18	Latvia	0.1
Lithuania	0.1	Portugal	0.16	Lithuania	0.1
Slovakia	0.1	Greece	0.11	Greece	0.1
Austria	0.0	Estonia	0.0	Slovenia	0.0
Estonia	0.0	Slovenia	0.0	Cyprus	- 0.0
Latvia	0.0	Slovakia	0.0	Finland	- 0.0
Slovenia	0.0	Latvia	0.0	Luxembourg	- 0.2
Italy	-0.3	Lithuania	0.0	Austria	- 0.4
Greece	-0.4	Finland	-0.4	Italy	- 1.0
Netherlands	-0.5	Italy	-0.5	Spain	- 1.0
Portugal	-0.5	Netherlands	-0.9	Netherlands	- 1.8
Spain	-2.2	Germany	-2.4	France	- 3.2
France	-5.6	France	-6.7	Germany	- 3.2
Euro-zone	**- 1.4**	**Euro-zone**	**- 2.8**	**Euro-zone**	**- 9.2**

Data computed after *UNCTAD WIR 2016*

In the same context, on FDI stock balances where also Germany and Spain make *'the mirror'*, i.e. a third country like Malta comes on top, whereas these two previous top FDI&DIA countries go down.

4.2. Central and Eastern European countries (C&E countries)

Tables 3 and 4 depict the above exposed aspects this time for the group of *Central and Eastern Europe* countries and this time too for different conclusions. Also notice that Slovakia, Slovenia, and the three Baltics that are Estonia, Latvia and Lithuania are here reconsidered, after joining the Euro-zone and accounting as such above. Or, except for here peaking top-3 – Poland, Czech Republic and Hungary –two traits push this region away from the Euro-zone specific: (a) there are different top countries on FDI/inflows and DIA/outflows – i.e. Poland on FDI/inflows and Hungary on DIA/outflows; (b) no *'mirror* -- this means the top rankings of FDI, DIA and FDI stocks balances are for rather the same countries and so this is specific for regions that mostly receive their international capital from other regions through long-way FDI flows – and (c) Hungary's and Romania's negative dynamics on FDI and DIA respectively aren't as such.

Table 3. C&E Europe for international capital
=static analysis= =% of world stocks =

rank	FDI		DIA	
	Name	**Amount**	**Name**	**Amount**
i	Poland	0.8	Hungary	0.2
ii	Czech Republic	0.5	Poland	0.1
iii	Hungary	0.4	Czech Republic	0.1
iv	Romania	0.3	Estonia	0.0
v	Bulgaria	0.3	Croatia	0.0
vi	Slovakia	0.2	Slovenia	0.0
vii	Croatia	0.2	Slovakia	0.0
viii	Estonia	0.1	Bulgaria	0.0
ix	Lithuania	0.1	Lithuania	0.0
x	Latvia	0.1	Latvia	0.0
xi	Slovenia	0.0	Romania	0.0
	C&E Europe	**2.9**	**C&E Europe**	**0.5**

Data computed after *UNCTAD WIR 2016*

Table 4. C&E Europe for international capital dynamics and balances
=% of world stocks =

Dynamics				FDI stock balances	
FDI		**DIA**		**FDI-DIA**	
Name	**Amount**	**Name**	**Amount**	**Name**	**Amount**
Poland	0.35	Hungary	0.190	Poland	0.7
Romania	0.29	Poland	0.104	Czech Rep.	0.4
Bulgaria	0.23	Czech Rep	0.071	Romania	0.3
Czech Rep	0.144	Croatia	0.028	Hungary	0.2
Slovakia	0.136	Slovenia	0.027	Bulgaria	0.2
Croatia	0.132	Estonia	0.030	Slovakia	0.2
Lithuania	0.06	Bulgaria	0.015	Croatia	0.1
Estonia	0.04	Latvia	0.014	Estonia	0.1
Latvia	0.03	Slovakia	0.019	Latvia	0.1
Slovenia	0.00	Lithuania	0.012	Lithuania	0.1
Hungary	-0.27	Romania	-0.001	Slovenia	0.0
C&E Europe	**1.15**	**C&E Europe**	**0.509**	**C&E Europe**	**2.402**

Data computed after *UNCTAD WIR 2016*

Shortly, the same top countries here are on all rankings. Or, this is for here emphasizing that these countries invest abroad (i.e. 0.5% of world stocks) much less than they receive (i.e. 2.4% of world stocks). In other words, the region is fed from outside and so incipient experience for international capital issues.

4.3 The other Eurasian regions

Unfortunately, for space limiting reasons the above type approaching won't be reiterated on further regions that were equally analyzed in context: South-East Europe, Community of Independent States (CIS) countries, Near East and the rest of Asia. See in Table 5

Table 5. World regions: FDI&DIA stocks in 2015, % of world

ranking	Region	FDI stocks	DIA stocks
I	Euro-zone	21.8	31.0
Ii	Rest of Asia	20.8	13.9
Iii	West Europe	4.4	7.5
Iv	Near East	3.6	1.7
V	CIS	3.3	2.3
Vi	C&E Europe	2.9	0.4
vii	SE Europe	0.3	0.0
-	**subtotal**	**57.1**	**56.9**

Calculated after UNCTAD:*WIR 2016*

Table 6. World regions: FDI&DIA stocks dynamic in 2015, % of world

ranking	Region	FDI stocks	DIA stocks
I	CIS	2.66	2.1
Ii	Near East	2.4	1.7
Iii	Rest of Asia	1.17	4.61
Iv	C&E Europe	1.1	0.5
V	SE Europe	0.3	0.0
Vi	West Europe	-0.2	0.1
vii	Euro-zone	-1.7	-2.8
-	**subtotal**	**5.7**	**6.2**

Calculated after UNCTAD:*WIR 2016*

Table 7. World regions: FDI stock balances in 2015

ranking	Region	% of world	Millions of US$
I	Rest of Asia	6.8	1 591 246.4
Ii	C&E Europe	2.4	559939.0
Iii	Near East	1.8	426853.5
Iv	CIS	0.8	204613.3
V	SE Europe	0.3	66632.1
Vi	West Europe	-3.1	-728310.0
vii	Euro-zone	- 9.6	-2149956.0
-	**subtotal**	**-0.5**	**-28982.0**

Calculated after UNCTAD: *WIR 2016*

Briefly, *South-East Europe* means five countries FDI&DIA dominated by Serbia-Montenegro, a country that otherwise wouldn't be able to have a 4th ranking position for FDI&DIA in the C&E Europe region, as for instance. On the *Western side of Europe*, things appear similar with the ones concluded for the neighbouring Euro-zone: Switzerland is the presumable top investor country in the area, but also these six countries receive and invest abroad much more than the double of C&E Europe's amounts. *CIS countries* (12 countries) are ex-communist too, but what is there different is that the Russian Federation, the *top*-FDI country in the region, equally is the *top-investor country,* i.e. it would be able to invest more than cumulative FDI stocks of all the other countries, plus the region keeps positive FDI stock balances (while Russia is negative FDI stocks balance) and the highest international capital dynamic on the whole continental block that Eurasia is. The *Near East* (14/ noted in WIR 2016 as 'West Asia') countries look like C&E Europe countries in terms of being international capital fed from outside when differently country ranking on FDI – i.e. Saudi Arabia, Turkey and Israel, top-3 countries -- and DIA – i.e. Israel, United Arab Emirates and Kuwait, as top-3 countries – and both top-3 countries keep 62.2% of international capital stocks of the region; despite missing a full regional investor country, the region does expose countries like Kuwait, United Arab Emirates and Qatar as significant investor countries.

The rest of *Asia*'s 27 countries break down into three regions – *East Asia, South-East Asia* and *South Asia* – and its top-3 countries – China, Hong-Kong China and Singapore – carry 70.5-70.6% of the continent-region's international capital.

Finally, let us see again Table 2.4.1 for the quasi-equality of FDI and DIA cumulative stocks and Table 2.4.3 for cumulating 0.5% of world stocks as *FDI stock deficit* attributed to the whole Eurasia. This is a continental block that so appears autonomous international capital market area – i.e. *Euro-zone* and *West Europe* mostly feed the whole large area and some regional investor countries -- e.g. Switzerland, Russian Federation and India – here add their contributions.

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