SECTION: REGIONAL DEVELOPMENT STRATEGIES AND POLICIES IN CENTRAL AND EASTERN EUROPE

SPECIAL SECTION UNDER THE PATRONAGE OF JEAN MONNET MODULE

THE EVOLUTION OF DIRECT EXTERNAL INVESTMENTS IN THE EUROPEAN UNION IN THE CURRENT ECONOMIC CONTEXT

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Abstract:
Over the last decades direct external investmentshave been some of the most important features of the global economy and globalization. They involved the creation of new companies abroador the acquisition of significant shares in foreign firms.Direct foreign investmentsrecorded from one year to another, new records, positive or negative, being a natural consequenceof transnational corporations intensifying their activitiesand efforts to liberalizemarkets and trade.

Undoubtedly, the main reason that makes a company invest abroad is maximazing. More specifically,the basis of a decision of a corporationto operate abroadare three factors: the need to obtain cheeper natural and human resources, the possibilityof entering certain markets, where export could offerhigher rentability margins, the third factor is conditionedby the growth in efficiency of all the operations carried aut by a world-class business.

Because the European Union is a market of more than 500 million consumers, consisting of members with different levels of development, there are important differences regarding the performance used in attracting foreign investors.

Key words*: globalization, multinational corporation, foreign capital investment, acquisitions and mergers.*

JEL Classification: *F15, F21*

1. Introduction

The flows of direct capital investment abroad have undergone important changes over the past decades, both in terms of their values and geographical distribution.

Corporations ceased to invest in the last decades, only after careful analysis, based on precise criteria. According to Harvard Business Review, in order of importance, these criteria would be: the stability of the local currency; political stability; inflation rate; the possibility of repatriation of capital; the extent of exercise of control; lack of discrimination.

In 2016, according to UNCTAD, direct foreign investment flows (FDI) at a global level, declined by about 2% over the previous year reaching $ 1.75 billion. Although UNCTAD predicts a modest recovery in FDI flows in 2017-2018, it is expected that they remain well below the level achieved in 2007. Increased geopolitical risks and uncertainty policy represent major factors for investors, with a strong impact on the recovery of investment flows in 2017.

2. Foreign direct investment flows in the European Union

Undoubtedly, over the last decades, european integration has incited transnational companies to intensify their investments in the territory of the European Union.

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The main attraction for foreign investors is the perspective that this huge market offers, which, after the growth of the European Union, has transformed it in one of the biggest and most developed markes that exist at a global level.

Of the over 86,000 existing global corporations in 2017, the European Union hosts almost 33,200 (38% of the total). Depending on the host countries, most are in the United Kingdom (7635) and Germany (4,581).

In the European Union, the economic opening of the South-East European countries since the beginning of the nineteenth century has included them as a strong potential market among the investment locations envisaged by the international business community and transnational corporations. The interest that these countries had for investors was primarily driven by the masses of consumers they could address, but also by the low costs of some factors of production, primarily labor, which could ensure price competitiveness of products or services. The basis for the decisions of foreign investors to move towards this area of the globe was a series of economic motivations, namely access to the market, resources and expansionist strategies pursued by various firms. In turn, the states in the region have perceived foreign investment as a possible source of capital, technology, skills and market access.

According to the European Commission, direct foreign investment is a key factor in competitiveness and economic development and reflects:

• the size of the economy;

• the attractiveness of the country for investors;

• the investment position of the country;

• Global levels of openness, competition and integration in international value chains.

Although investments in the EU have been positive in recent years, the geopolitical and macroeconomic challenges generated by Brexit have the potential to affect investment intentions in the near future.

The relationship between the UK and the European Union has never been simple and more complex as the integration process deepened.

The UK's decision to leave the European Union is a major imbalance, being the first time a Member State leaves the EU, so direct consequences will be hard to anticipate.

The economic impact for the near future will be felt on the confidence and expectations of investors. Uncertainty about the future of UK-EU trade relations will slow down investment in certain industries, both in the UK and the continent.

In addition, transactions that took place in 2016 are the result of decisions that preceded the referendum. Many mergers and acquisitions completed in 2016 were announced as early as 2015 or even earlier. Any potential change in FDI flows caused by Brexit could take several years or not.

For example, in the automotive industry, Brexit could be considered an important factor in General Motors' (United States) decision to sell European Opel and Vauxhall subsidiaries, which was announced in March 2017. Nissan also announced in February 2017 that it will revise its investment strategy once the Brexit terms are resolved. In contrast, in March 2017, Toyota announced a $ 296 million investment to improve UK branch operations.

The Center for Economic Performance (CEP) estimates that foreign direct investment in the UK will drop 22% over the next decade as a result of Brexit. In addition, The Center for Economic Performance (CEP) shows that a free trade agreement concluded by the UK with the European Union will not lead to an increase in investment flows.

Transnational corporations invest in the UK thanks to skilled labor, access to a huge European market, government support, infrastructure and logistics.

In figure no. 1 shows that some areas were more attractive to foreign investors, namely electricity, construction, retail, recycling, transport, maintenance, education, etc. For the coming years, a decline in FDI in the UK is expected in these sectors.

Percentage of companies investing in the UK for the domestic market (2003-May 2016)

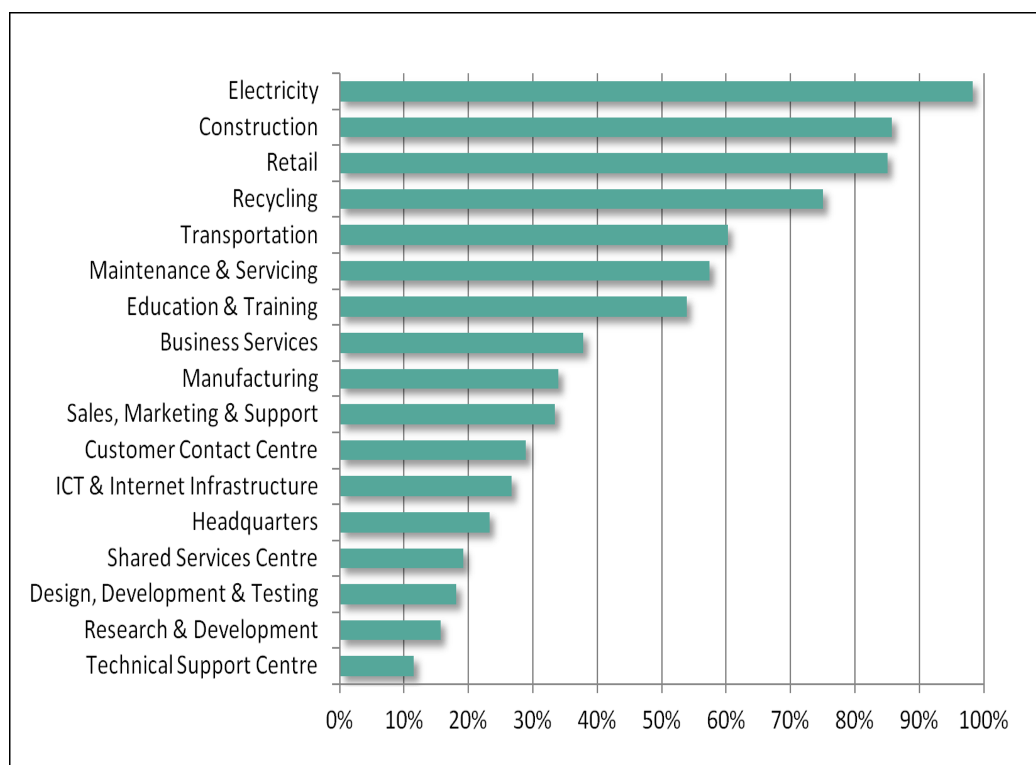

Figure no. 1

Source: The impact of Brexit on foreign direct investment into the UK: recommendations for investment promotion strategy, http://www.wavteq.com/brexit/ [accessed on 22 November 2017]

Foreign direct investment flows towards the European Union have gone up in 2016 to almost $ 570 billion, compared to $ 484 in 2015 (Table no. 2). Most attractive countries towards investors were: the United Kingdom, the Netherlands, Italy and France.

FDI inflows, by economy, 2013−2016 (Billions US dollars)				
	2013	**2014**	**2015**	**2016**
European Union	*336,8*	*256,6*	*483,8*	*566,2*
Austria	5,7	4,5	3,7	-6,0
Belgium	25,1	-8,9	21,2	33,1
Bulgaria	1,8	1,5	2,8	0,7
Croatia	0,9	2,8	0,2	1,7
Cyprus	-6,4	0,7	7,3	4,1
Czech Republic	3,6	5,4	0,4	6,7
Denmark	1,0	3,2	4,1	0,9
Estonia	0,7	0,6	0,1	0,8
Finland	-0,1	18,0	1,5	0,042
France	34,2	2,6	46,9	28,5
Germany	15,5	3,9	33,3	9,5
Greece	2,8	2,6	1,1	3,1
Hungary	3,4	7,7	-14,8	-5,3

FDI inflows, by economy, 2013−2016 (Billions US dollars)				
	2013	**2014**	**2015**	**2016**
Ireland	46,6	37,4	188,3	22,3
Italy	24,2	23,2	19,3	28,9
Latvia	0,9	0,7	0,6	0,1
Lithuania	0,4	-0,023	0,8	-0, 2
Luxembourg	10,4	-10,5	16,0	26,8
Malta	12,0	11,5	4,6	3,5
Netherlands	51,1	53,3	68,7	91,9
Poland	3,6	14,2	13,4	11,3
Portugal	2,7	2,9	6,9	6,0
Romania	3,6	3,2	3,8	4,5
Slovakia	-0,6	-0,5	-0,1	-0,2
Slovenia	-0,1	1,0	1,6	0,9
Spain	37,4	25,6	11,9	18,6
Sweden	4,1	4,0	6,2	19,5
United Kingdom	51,6	44,8	33,0	253,8

Table no. 2

SOURCE: UNITED NATIONS – UNCTAD - *WORLD INVESTMENT REPORT 2017. INVESTMENT AND THE DIGITAL ECONOMY*, UNITED NATIONS, NEW YORK AND GENEVA, 2017, P. 222

The total value of mergers and acquisitions done in Europe amounted to $ 377 billion in 2016, the highest level since 2007. They were mainly due to the United Kingdom where FDI inflows rose from $ 33 billion in 2015 to 254 billion in 2016.

Three of the four largest transactions in the world completed in 2016 were foreign acquisitions of UK-based companies: the purchases of the SABMiller beverage company by Anheuser-Busch (Belgium), the BG group oil company Royal Dutch Shell PLC (the Netherlands) and ARM semiconductor technology company by SoftBank (Japan).

FDI in Ireland, the largest recipient in Europe in 2015, with $ 188 billion in revenue, fell in 2016 to $ 22 billion. Intracompany loans worth 124 billion dollars were responsible for this decline.

On the other hand, in the EU countries from Central and Eastern Europe, direct external investment flows stabilized in 2016, after their decline in 2015.

In the developed mediterranean countries, FDI inflows went up in 2016. So, in Spain investment flows reached aproximately $ 19 billion, and direct foreign investments in Italy went up with about 50%, to $ 29 billion. FDI flows towards Greece almost tripled up to $ 3.1 billion.

Intra-European projects continued to dominate FDI activity, and outside of Europe, the United States lead the top of foreign direct investment in the EU, mainly in the financial and business services sectors, followed by China, the largest Asian investor.

The most attractive areas in the European Union for foreign investors in recent years are the manufacturing sector, the oil industry, transport and communications, retail and tourism, and the automotive sector.

Investment flows are a key driver for creating new jobs, establish new innovation opportunities, facilitating sustained productivity growth. They allow the diffusion of new ideas, new technologies and the best research programs, with the effect of diversifying and improving products and services. According to data recorded in the EU states, a 1% increase in the opening of the economy generates a 0.6% increase in investment flows.

Most investment policy measures introduced in 2016 aimed to promote and liberalize the above mentioned. Approximately 124 countries adopted investment liberalization measures – the highest figure from 2006. Entry conditions and registration procedures for transnational companies have been simplified into a wide variety of industries.

The main reason that makes a company internationalize its business remains profit maximization. More accurate, at the basis of the decision of a corporation to operate across the border are three factors: the need to obtain cheaper natural and human resources, the possibility of entering certain markets, where the export could offer higher margins of profitability, the third factor is conditioned by the increased efficiency of all operations carried aut by a world class business.

Direct foreign investment outflows have gone down by 11% to $ 1 trillion in 2016, mainly due to a fall in the european corporate investments. As in the past, the largest share of outputs in developed countries was also directed to other developed countries.

FDI outflows from EU member countries declined in 2016 to $ 467.1 billion after reaching $ 593 billion in 2015, the biggest growth since the year 2008.

This was driven by the sudden drop in FDI from Ireland (73%) up to $ 45 billion, Germany (63%) up to $ 35 billion. It is true that the value of cross-border mergers and acquisitions completed by transnational companies on the continent continued to grow, rising with up to 40% to $ 435 billion. Thus, the Netherlands has registered a growth of $ 173 billion in 2016, compared to $ 138 billion in 2015, as a result of the acquisition of Shell-BG Group, turning the country into the largest investor in Europe.

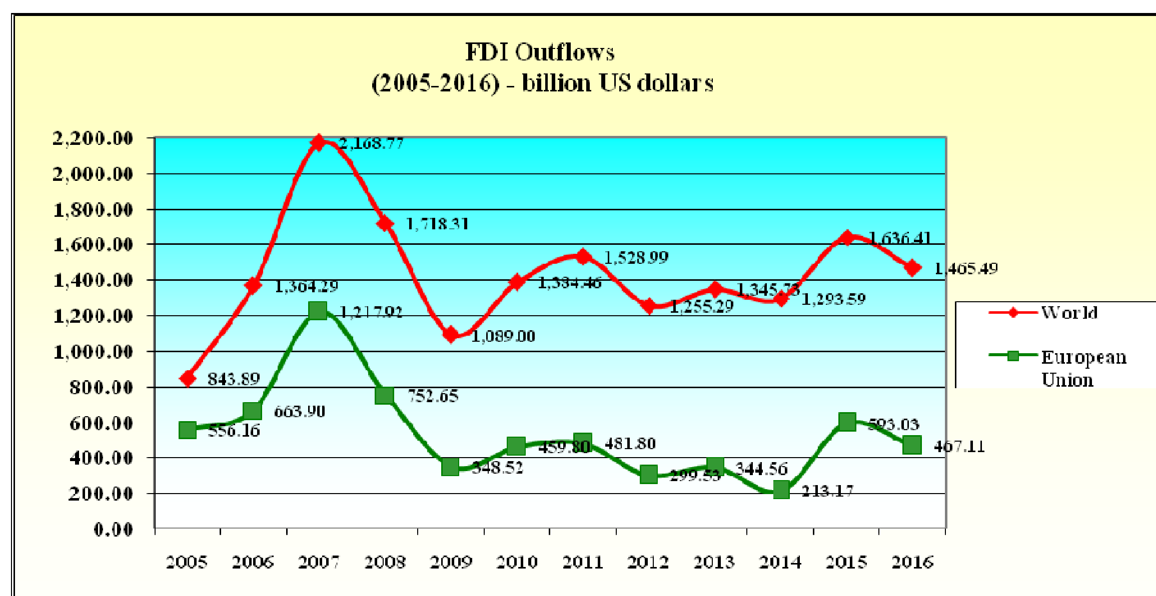

Figure no. 2

SOURCE: HTTPS://DATA.OECD.ORG/FDI/FDI-FLOWS.HTM#INDICATOR-CHART [ACCESSED ON 19 NOVEMBER 2017]

The European Commission wants to finish a detailed analysis of the direct foreign investment flows in the European Union and to set up a coordination group with the member states to help identify the common strategic concerns and solutions in the domein of these investments.

According to the European Commission, to improve the performance of investments in the European Union, three priorities must be considered:

- Investment regulations are to be as stable and simple as possible ;

- Reducing the obstacles that are in the way of accessing finances, especially for small and medium-sized enterprises and start-ups;
- Restrictions on corporations that want to open subsidiaries or to buy new companies are to be as limited as possible, especially when several countries of the European Union are targeted.

That is why the European Comission proposes the implementation of the following instruments:

The Investment Plan – to mobilize funds towards additional investments through the European Investment Fund and to improve framework conditions;

The European Semester – to introduce structural reforms at a national and Euro Zone level, to improve the conditions for investing and promoting free competition;

Single Market Strategy – to remove unnecessary barriers targeting free movement of goods and services, to support investments and innovation..

Capital Markets Union – reducing the fragmentation of financial markets, diversifying the sources of finance, stimulating capital flows between countries and improving access to finance for businesses, especially for small and medium-sized enterprises ;

A Better Regulated Agenda – to make legislation at the European Union level clearer and concise.

The European Union has one of the most open investment regimes in the world, the member states collectively impose the least restrictions regarding direct foreign investments.

3. Conclusions

The evolution of FDI flows at EU level shows us that developed countries and Central and Eastern Europe economies have registered a different dynamics, depending on the economic conjuncture and internal policy.

The main promoters of direct foreign investments are the developed states and transnational companies that originate there, including the ones in the European Union. Developed european countries have been, together with other advanced countries, the engine of world economic growth and the driving force of globalization. They had an active role in increasing the volume of foreign direct investment and building the architecture of the global economy we know today.

Globalization, generated by transnationalization, is a combination of technological developments and economic liberalization and allows goods, services, capital and citizens to go anywhere on this planet. Sometimes the concept of investment flow itself is automatically associated to theses companies' existence and activities.

That is why the big corporations are expanding their activities across the globe, with the desire to maximize their profits, in search for the best conditions, going over national boundaries. Their activities have a huge impact over global distribution of wealth and economic activity among national economies. They bring benefits to both consumers and economies all over the world.

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