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THE MODERN TENDENCIES OF FOREIGN DIRECT INVESTMENT FLOWS IN CONDITIONS OF GLOBAL INSTABILITY

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Investments are one of the main factors that stimulate the growth of production volumes, the development of innovative technologies, that improve the quality and competitiveness of manufactured products, create new jobs and reducing unemployment. FDI are the driving force behind the modernization of the economy of the home country, and the international movement of capital is one of the main driving forces of economic globalization. The study of the current state and prospects in the field of FDI indicates multidirectional aspects of international investment processes. FDI overall stocks are huge, and the growth of their volumes outstrips the growth rates of world GDP and international trade, which is a prerequisite for an in-depth study of FDI and is a particularly urgent task in conditions of global instability.

Keywords: *foreign direct investments, investment flows, global instability, structure of capital, international investment processes, international commerce, innovative technologies.*

TENDINȚELE MODERNE ALE FLUXURILOR DE INVESTIȚII STRĂINE DIRECTE ÎN CONDIȚII DE INSTABILITATE GLOBALĂ

Investițiile sunt unul dintre principalii factori care stimulează creșterea volumelor de producție, dezvoltarea tehnologiilor inovatoare, îmbunătățirea calității și competitivității produselor fabricate, crearea de noi locuri de muncă și reducerea șomajului. ISD sunt forța motrice din spatele modernizării economiei țării de origine, iar mișcarea internațională a capitalului este una dintre principalele forțe motrice ale globalizării economice. Studiul situației și perspectivele actuale în domeniul ISD indică aspecte multidirecționale ale proceselor investiționale internaționale. Amploarea ISD este uriașă, creșterea volumelor acestora depășește ratele de creștere ale PIB-ului mondial și ale comerțului internațional, ceea ce reprezintă o condiție prealabilă pentru un studiu aprofundat al ISD și este o sarcină deosebit de urgentă în condiții de instabilitate globală.

Cuvinte-cheie: *investiții străine directe, fluxuri investiționale, instabilitate globală, structura capitalului, procese investiționale internaționale, comerț internațional, tehnologii inovatoare.*

JEL codes: F21, G3, G15

I. Introduction

Investments is the most important condition for growth and sustainable development. They contribute to expanding the productive capacity of the economy, creating jobs and increasing incomes. Foreign direct investment (FDI) can provide added value by bringing new knowhow, technology, and modern business practices to recipient countries, resulting in improved living standards. Thus, according to the modern theoretical and empirical investigations, a home country industry usually benefits from enhanced productivity, output growth, and competitiveness [4].

FDI stimulates technology spillovers, develops human capital, and creates a more competitive business environment, these factors promote economic growth, which is essential towards alleviating poverty and increasing welfare standards [7]. However, the empirical literature is not in agreement regarding the positive role of the FDI on the all host economies. In particular, a number of studies have established that the effectiveness of foreign direct investment depends on the development of human capital in the recipient country. Only in countries where human capital exceeds a certain threshold does FDI have a positive impact on economic growth [2]. Also, several researchers suggest that the technological absorptive ability and level of infrastructure development may explain the differences in the growth effects of the FDI across countries [11].

The dynamics of FDI on the scale of the contemporary world economy and at the European level is

predetermined by economic conditions and strategic trends formed in the global market space. Increasingly frequent economic crises initiated by financial, geopolitical factors, as well as the COVID-19 pandemic, armed conflicts, natural disasters, etc. reduce investment activity in general and FDI in particular. Under the current conditions, it becomes relevant to identify the most significant and sustainable global strategic trends in the dynamics of FDI, this being the actual *goal* of this study.

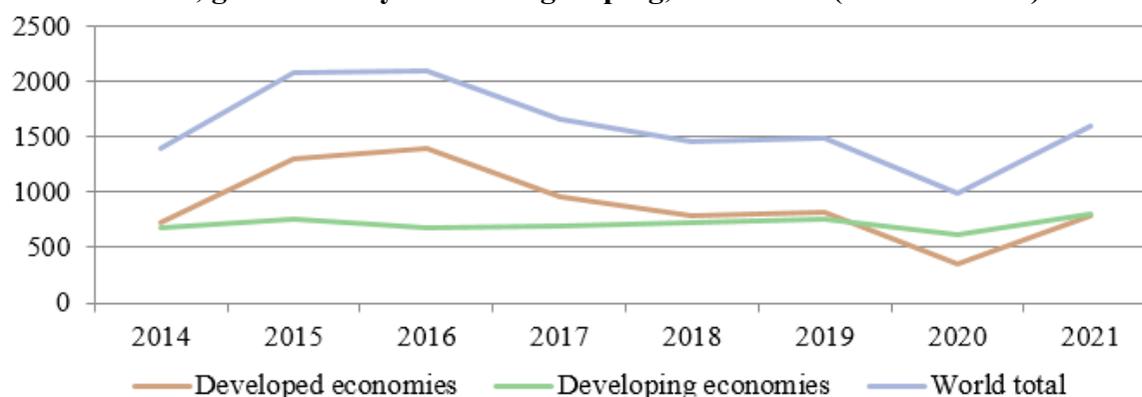
II. Applied methods and sources of information

The investigation presented in this article was implemented based on such research methods as: documentary method, analogy and grouping, quantitative and qualitative data method, graphical method, method of synthesis and comparative analysis method. Analyses is found on the data obtained from United Nations Conference on Trade and Development (UNCTAD), Organization for Economic Co-operation and Development (OECD), Vienna Institute for International Economic Studies, Ernst & Young Global Limited etc.

III. Results and discussions

The COVID-19 pandemic had a significant impact on the global flows of foreign direct investment, resulting in a significant drop by 35% from \$1.5 trillion in 2019 to \$1 trillion in 2020, bringing their level to almost 20% below the 2008-2009, the previous period of the global financial crisis. Such a low level of FDI inflows corresponds to the level of the 1990s. The most significant drop in FDI was recorded by FDI in developed economies, where it dropped to 58%, in developing economies the decrease in FDI was much smaller, its level was largely supported by relatively stable FDI flows in Asia. The FDI in developed countries fall to \$229 bn, in the developing world FDI decreased by 12% to 616 bn. As a result of these dynamics, the share of developing countries in total global FDI flows has increased significantly, amounting to an unprecedented two thirds of global FDI (fig. 1).

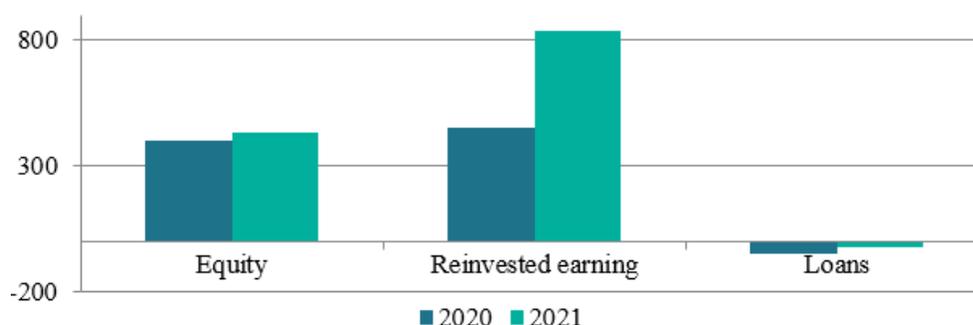
Fig. 1. FDI inflows, global and by economic grouping, 2014–2021 (Bns of dollars).



Source: elaborated by the authors based on UNCTAD 2022 annual report [12].

In 2021, worldwide FDI volumes increased significantly, reaching \$1.58 trillion, up 64% compared to the previous year, with the most significant increase in FDI in developed countries, which was +134%, bringing their volumes to 746 bn, growth in FDI volumes in developing countries did not exceed 30%, while investment volumes amounted to 837 bn, as a result of which the share of developed and developing countries in the volume of world FDI was approximately equal. In the beginning of 2022, the positive trend for global FDI continued, however, the outbreak of conflict in Ukraine again changed their dynamics, as a result of which in 2022 the FDI growth rate in a number of countries decreased, and in some countries a drop in foreign investment was registered. In Q3 2022, global FDI flows decreased by 7% compared to Q2 of the same year, however, due to a strong first quarter this year, global FDI flows in the first nine months of 2022 remain 16% higher than levels recorded in the first nine months of 2021 [8]. The most significant drop in FDI was registered in Russia, the USA and, to a lesser extent, in China.

It should be noted, however, that the growth of investment inflows in 2021 was mainly based not on new investments attracted through equity capital, but on investors reinvested profit по уже существующим проектам, and the debt dynamics was negative (fig. 2).

Fig. 2. Uneven recovery growth, bns of dollars, 2020-2021.

Source: elaborated by the authors based on UNCTAD 2022 annual report [12].

The OECD report on the evolution of FDI inflows and outflows for the 1st half of 2022 indicates that during this period the structure of FDI flows by instrument remained almost unchanged. In 2022, investors were still unwilling to finance projects using debt instruments, and, due to the repayment of loans already issued, the evolution of FDI inflows and outflows for debt instruments showed negative values, while the share of reinvested earning in FDI flows steadily increased, which is typical for periods of financial instability. The volume of capital raised through the issue of shares increased slightly, and as a result of which by mid-2022 the share of reinvestment of earning in total FDI outflows was 50%, but in total FDI inflows it was about 65% [9].

The global instability also determined the evolution of the volume of attracting investments in international projects in the context of their types of financing. Thus, in 2020, compared to 2019, the volumes of announced greenfield projects around the world decreased significantly, and in developing countries the number of newly announced greenfield projects fell by 42%, while in developed economies they declined only to 19%. However, in subsequent years, the volume of investments in greenfield projects, both at the global level and in developing countries, has been steadily growing, in particular, in 2022 they increased by 6% and 26%, respectively, while in 2022 in developed countries they registered a decrease by 4% (table 1).

Table 1. Announced investment projects by types, billions of dollars.

Region/economy	Green field projects			Cross-border M&As			International project finance deals		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
World	13 370	15 243	16 095	475	737	697	1 342	2 349	2 343
Developed economies	9 086	10 286	9 862	389	624	591	792	1 391	1 438
Developing economies	4 284	4 957	6 233	86	113	106	550	958	905

Source: elaborated by the authors based on UNCTAD report [13].

In 2020 compared to 2019, the number of international project finance deals in developing countries declined by 14%, while in developed economies they increased by 8%. In 2022, after a period of growth in 2021, they also registered a decrease at the global level and in developing countries by 0.01% and 6%, respectively, while in developed countries this indicator showed an increase of 3%. At the same time, the dynamics of cross-border M&A sales funding for all analyzed groups displays identical dynamics. Thus, after a significant decline in 2020, in 2021 growth was recorded both at the global level and in developed and developing countries, followed by a decrease in 2022 by about 6%.

In the European Union (EU), the COVID-19 pandemic had a larger negative impact on FDI flows than was recorded globally, thus inward FDI in EU falling by 71% to \$119.7bn in 2020, down from \$374.3bn in 2019. In 2020 foreign M&A decreased by 34% compared to 2019. In 2020 inward FDI accounted for a

mere 0.7% of EU-27 GDP, down from 3.6% in 2018. at the end of 2020 and already in the first quarter of 2021, a 4.5% increase in FDI was registered compared to the first quarter of 2020, however, the level achieved was still 30% lower than the same period in 2019. Throughout 2021, FDI in the EU increased, but in many countries, their volumes did not reach pre-pandemic levels during that period. (table 2).

Table 2. FDI flows in EU countries, 2019–2021 (Blns of dollars).

Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic	Denmark	Estonia	Finland	France	Germany	Greece	Hungary	Ireland	Italy	Latvia	Lithuania	Luxembourg	Malta	Netherlands	Poland	Portugal	Romania	Slovakia	Slovenia	Spain	Sweden
<i>FDI inflows, 2019 (Billions of dollars)</i>																										
3,0	1,7	1,8	0,4	34,3	10,1	7,0	3,2	13,4	28,4	52,7	5,0	4,3	49,4	18,1	0,9	3,0	12,8	3,8	14,1	13,5	12,4	5,8	2,5	1,5	17,4	9,1
<i>FDI inflows, 2020 (Billions of dollars)</i>																										
-15,0	11,9	3,4	0,14	4,6	9,4	3,2	3,4	-1,4	4,9	64,5	3,2	6,8	80,8	-23,6	1,0	3,5	102	3,9	-105	13,8	7,7	3,4	-1,9	0,2	5,6	18,8
<i>FDI inflows, 2021 (Billions of dollars)</i>																										
5,8	25,6	1,5	0,6	0,5	5,8	5,5	0,9	9,4	14,2	31,3	5,7	5,4	15,7	8,5	5,3	2,0	-9,0	4,0	-81,0	24,8	8,0	8,6	0,06	1,5	9,8	26,9
<i>FDI outflows, 2019 (Billions of dollars)</i>																										
12,5	-3,3	0,4	-0,1	34,4	4,1	16,8	1,9	4,9	33,8	137	0,6	0,3	32,0	19,8	-0,1	1,7	-2,5	6,9	16,3	1,8	3,6	0,4	0,04	0,6	24,8	16,1
<i>FDI outflows, 2020 (Billions of dollars)</i>																										
-2,4	10,6	0,2	0,03	0,3	3,0	10,9	0,2	5,8	46,0	60,6	0,5	4,2	44,9	-1,8	0,26	2,8	102	7,1	91,4	1,3	2,3	0,05	0,2	0,5	23,5	23,6
<i>FDI outflows, 2021 (Billions of dollars)</i>																										
10,8	45,6	0,15	0,12	-3,3	5,6	22,4	1,5	4,1	-2,8	152	0,9	2,9	61,9	11,7	3,4	0,7	25,4	7,2	28,8	0,18	-1,4	-0,03	0,4	0,9	-1,6	20,3

Source: elaborated by the authors based on UNCTAD report [12].

The dynamic and recovery of investment activity in EU countries in 2019-2021 were not uniform. In particular, FDI inflows in many countries in 2020 decreased, but were mostly positive, with the exception of Austria, Finland, Italy, Netherlands and Slovakia. In 2021 investment inflows significantly increased and became positive in all EU countries besides Netherlands and Luxembourg. FDI outflows in EU after their decreasing in 2020, registered growth in 2021, the most significant it was in Belgium, Germany, Ireland, but in a number of countries FDI outflows decreased, and their values became negative in Cyprus, France, Portugal, Romania and Spain. At the beginning of 2022, FDI inflows in many developed EU countries continued to grow. For example, in Germany, their volumes increased from 2bn USD in the fourth quarter of 2021 to 18bn USD in the first quarter of 2022, in Spain over the same period, FDI inflows increased from 4bn USD to 21bn USD, in Sweden from 10bn USD to 23bn USD, while in Belgium and Ireland FDI inflows decreased from 19bn USD to -8bn USD and from 17bn USD to 37bn USD, respectively. The conflict in Ukraine had a negative impact on the FDI outflows of European countries. This drop was most significant in Belgium, Switzerland and Denmark. Overall, after increasing around 35% year-on-year in the first quarter of 2022, global FDI flows fell 7% year-on-year in the second quarter of 2022, reflecting a change in investor sentiment in a highly uncertain environment [9].

FDI inflows to Central, East and Southeast Europe (CESEE), as well as in non-EU European countries declined by 58% in the first half of 2020 [1], but gradually recovered towards the end of the year (table 3).

Table 3. FDI flows in non-EU European countries, 2019–2021 (Blns of dollars).

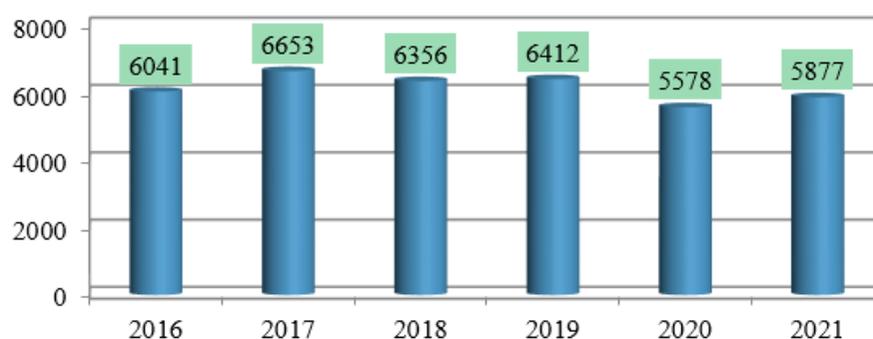
Albania	Belarus	Bosnia and Herzegovina	Montenegro	North Macedonia	Republic of Moldova	Russian Federation	Serbia	Ukraine
<i>FDI inflows, 2019 (Billions of dollars)</i>								
1,28	1,29	0,34	0,42	0,45	0,51	32,10	4,27	6,02
<i>FDI inflows, 2020 (Billions of dollars)</i>								
1,11	1,39	0,39	0,53	0,23	0,15	10,41	3,47	-0,04
<i>FDI inflows, 2021 (Billions of dollars)</i>								
1,23	1,23	0,52	0,66	0,61	0,26	38,24	4,56	6,55
<i>FDI outflows, 2019 (Billions of dollars)</i>								
0,13	0,02	0,03	0,08	0,04	0,04	22,02	0,29	0,84
<i>FDI outflows, 2020 (Billions of dollars)</i>								
0,09	0,08	0,06	-0,005	0,05	-0,002	6,78	0,11	0,02
<i>FDI outflows, 2021 (Billions of dollars)</i>								
0,06	-0,08	0,04	0,01	0,09	0,03	63,60	0,27	-0,20

Source: elaborated by the authors based on UNCTAD report [12].

In non-EU European countries, the strongest investment flows decrease in 2020 was registered in Ukraine, Republic of Moldova, Russian Federation. The recovery of FDI inflows in 2021 in analyzed countries, except for Moldova, was close to pre-pandemic period. FDI outflows after their decline in 2020, were recuperated in 2021 in North Macedonia, Republic of Moldova, Russia and Serbia, but in Belarus and Ukraine this indicator continued decrease and became negative. The most significant growth of FDI outflows was registered in Russian Federation, where it increased more than 9 times, from \$6.7bn in 2020 till \$63.6bn in 2021. Following and increase in the first quarter of 2022, when FDI inflows increased by 42% year on year, in the second quarter of 2022, the EU-CEE states recorded a decrease in FDI inflows by 21%. In the CIS3 countries (Belarus, Kazakhstan and Moldova) and Ukraine, the decline in FDI inflows in 2Q 2022 was even greater – 31% year-on-year [10].

In 2021, businesses around the world announced 5,877 FDI projects in Europe, a 5% annual increase. This growth followed a significant decline in 2020, when due to the outbreak of the COVID-19 pandemic, the number of projects decreased by 13% compared to 2019. However, despite the recorded increase, the number of announced objects in 2021 was still 8% lower than in 2019, and 12% lower than 2017's record year for FDI in Europe (fig. 3).

In 2020, France, Germany and the UK were in first place as the largest recipients of foreign investment within Europe. But in 2021, the number of announced projects in France increased by 24% to 1,222 projects, while the number of projects in Germany decreased by 10% to 841 and investment in the UK remained virtually unchanged, increasing by only 2%. The significant increase in the number of projects in France was driven by manufacturing projects, particularly in the automotive, aeronautics and consumer industries: 482 manufacturing projects were announced in 2021, a 41% annual increase (table 4).

Fig. 3. Number of foreign investment projects announced in Europe (2016–21).

Source: elaborated by the authors based on EY European Investment Monitor 2022 [5].

Table 4. Top 10 countries in terms of FDI projects in Europe in 2020 and 2021.

Rank	Country	2020	2021	Change 2020/2021	Share of FDI (2021)
1	France	985	1222	24% ↑	21%
2	UK	975	993	2% ↑	17%
3	Germany	930	841	-10% ↓	15%
4	Spain	354	361	2% ↑	6%
5	Turkey	208	264	27% ↑	4%
6	Belgium	227	245	8% ↑	4%
7	Italy	113	207	83% ↑	4%
8	Portugal	154	200	30% ↑	3%
9	Poland	219	193	-12% ↓	3%
10	Ireland	165	152	-8 ↓	3%

Source: elaborated by the authors based on EY European Investment Monitor 2022 [5].

In 2022, the growth in the number of announced FDI projects in France continued, increasing by 7% compared to 2021, reaching a record high of 1,725 projects.

The study of the current state and prospects in the field of FDI indicates multidirectional aspects of international investment processes. On the one hand, governments in various countries stimulate the liberalization of the FDI regime and promote their attraction, trying to intensify investment processes in difficult periods of global uncertainty. At the same time, several national regulators are growing concerned, mainly related to the threat of takeover of national companies belonging to the category of strategically important subjects of the national economy. In particular, this caused some initiatives carried out by the relevant authorities from Germany, France and Italy, as a result of which was elaborated, and entered into force on 10 April 2019, EU Regulation 2019/452 on foreign investment screening (the FDI Regulation) which became fully operational on 11 October 2020. The main objectives of the FDI Regulation are to provide an EU-wide cooperation framework between the Member States and the Commission and to establish common criteria to identify risks relating to the acquisition or control by foreign investors of strategic assets that might threaten security or public order. The Regulation is only concerned with inward FDI (i.e., investment from abroad in assets based in the European Union) [6].

Conclusions

In the modern world, foreign investments, as one of the main forms of international capital movement, have become an important factor in the development of national economic systems. Their role and importance are growing every year, and countries are actively fighting for them on the world stage. At the same

time, cross-border capital flows have experienced various shocks in the last decade, caused by numerous both objective and subjective factors. The analysis carried out in the current article made it possible to identify the modern tendencies of foreign direct investment flows in conditions of global instability, the main of which are: the growth of world FDI volumes as a result of financial globalization and the intensification of international investment cooperation; growing instability in the global FDI market and cyclical fluctuations in FDI flows due to increased uncertainty and crisis in the global economy caused by financial, geopolitical factors, the COVID-19 pandemic, armed conflicts, natural disasters, etc.; expansion of the circle of countries participating in the global FDI market, an increasingly active participation of developing countries in it, acting both as recipient countries and donor countries; expansion of the sectoral structure of FDI, with the dominant component being software and IT services, finance, business services and professional services, transportation, manufacturers and suppliers, electronics sectors etc.; growth in the diversity of organizational forms, financial instruments and financial markets, contributing to the strengthening of FDI flows; improving the methods of regulating FDI, aimed, on the one hand, at the liberalization of international capital flows and, on the other hand, at protecting national economies and strategic industries; development of the scientific theory of FDI, models and methods of forecasting, which, at the same time, in conditions of global instability, cannot sufficiently protect participants in investment markets from unpredictable circumstances and shocks.

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