THE EFFECTS OF THE FINANCIAL AND ECONOMIC CRISIS ON FDI

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Abstract:
Policies on foreign direct investment worldwide, are characterized by increased liberalization of foreign investment, coupled with efforts to adapt foreign direct investment in advanced public objectives, namely environmental protection, poverty alleviation and / or addressing national security concerns. Efficiency measures to combat economic and financial crisis on investment policy, both nationally and internationally, has an essential role in creating favorable conditions for attracting new flows of FDI, is, however, difficult to assess the extent the current global crisis is only one element that led to the adoption of measures favorable / unfavorable to promote FDI..

Key words*: foring direct investmen, the financial and economic crisis, investment policy*

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Flows of FDI fluctuate considerably from one year to the next, partly as a function of economic fortunes. FDI flows generally increase during times of rapid economic growth, while disinvestment is more likely during periods of recession as businesses are more likely to focus on core activities in their domestic market.

Beginning with the year 2004, the FDI flux has registered constant growth, reaching a historic record level of 1.9 trillion dollars in 2007, 2008 marking the end of this period of growth, a decrease which has continued in 2009, due especially to the economic perspectives of developed countries, which have negatively influenced the tendency of these countries, which were affected by the crisis, to invest, as well as the start of the economic crisis,which has led to the decrease of the capacity of firms to invest as a result to the reduction of access to financing sources and the increase of financing costs.

The impact of the economic-financial crisis on the FDI flux has been different according to regions and economic sectors. Until the present, developed countries have been the most affected, the FDI flux in developping countries growing in the 2008-2009 period, but at a slower pace than in the preceding period, due to the decrease of FDI oriented towards export to the developed countries in recession and towards performing services on local markets with little growth perspectives.

Initially, the most affected economic sectors were financial services, the automobile industry, the chemical industry, the building material industry, but after that, the effects of the crisis extended to all the economic sectors – primary industry(which registered a decrease of 47% of fusions and acquisitions over the frontier), manufactured products(the most seriously affected sector, registering a decrease of 77% of fusions and acquisitions over the frontier).

On the other hand, the start of the economic-financial crisis also had a series of positive effects, in the context that it led to new opportunities for investments due to the reduction of the price of some shares, the restructuring of some industries, the increase of financial resources available in some emergent countries, the appearance and extension of new activity domains(especially in industries linked to protecting the environment) and the industrialization tendency of some companies.

These elements can contribute to the growth of the FDI flux in the future, aspect depending on the rapidity of the recovery of world economy, the efficiency of public policies in approaching the causes of the current crisis, the growth of the productivity of investments and the ability to prevent protectionist tendencies that may occur.

Economic policies and structural reforms aiming to ensure a higher stability of the world financial system and policies aiming at promoting investments and innovations as well as maintaining a favorable business and investment environment favorable to economic growth, will have an important role in economic recovery and the (re)creation of FDI flux growth condition.

EU-27 FDI flows with a range of economic partners have been considerably affected by the global financial and economic crisis. The decline in EU-27 outflows in 2009 could be largely attributed to a fall in investment to the United States — from EUR 148 200 million in 2008 to EUR 79 200 million in 2009. During the same period, investment from the United States in the EU-27 recovered, rising to EUR 97 300 million, which was more than twice the figure recorded in 2008 (EUR 44 400 million). Provisional figures for 2010 show a considerable decrease in both flows with respect to the United States.

EU-27 outward FDI to Canada fell to such a degree that there was disinvestment in both 2009 and 2010. Incoming FDI from Canada, after decreasing by 14 % in 2009, seems to have recovered in 2010, rising to EUR 27 700 million.

EU-27 investment flows to emerging economies, such as China, were generally less affected than flows to other economic partners. Having fallen to EUR 5 200 million in 2008, EU-27 outward FDI flows to China rose by 11 % in 2009. Preliminary results for 2010 suggest that FDI flows from the EU-27 to China fell by 16 %. Outward flows of FDI from the EU-27 to Brazil decreased for three successive years after peaking in 2007; however, the pace of decline was less marked than the average reduction in outflows for all EU-27 partners.

There was some evidence of an increase in inward investment into the EU-27 from Asia in 2010, as inward FDI flows from China (EUR 900 million) and Hong Kong (EUR 11 300 million) rose in relation to 2009. In a similar manner, there was a considerable increase in the level of inward flows from Brazil in 2010.

EU-27 outward investment in Russia dropped considerably in 2009 and then fell again in 2010, such that there was slight disinvestment in 2010. There was a similar pattern as regards Russian investment in the EU-27: having peaked in 2007 (EUR 10 500 million) much lower levels were recorded during the period 2008 to 2010, with a modest degree of disinvestment in 2010 (EUR 400 million).

EU-27 FDI outflows to Africa remained relatively unchanged during the period from 2007 to 2009, averaging EUR 20 707 million; this pattern was in stark contrast to that recorded for the other continents, where EU-27 outflows of FDI were considerably reduced.

Table 1: FDI outward flows by main partner, 2010 (EURO 1000 milioane)

		of which:									
	Extra EU-27	United States	Canada	Switz-erland	Russia	Japan	China	Hong Kong	India	Brazil	Offshore financial centres
0	1	2	3	4	5	6	7	8	9	10	11
EU-27 (2)	106,7	11,9	-4,1	-7,4	-0,4	-4,1	4,9	3,0	3,0	6,2	21,1
Belgium	35,9	24,0	0,6	-	1,3	-0,1	-	0,5	-	1,0	1,5
Bulgaria	0,1	-	-	-	-	-	-	-	-	-	0,1
Czech Republic	0,1	-	-	-	0,1	-	-	-	0,1	-	-
Denmark	-0,3	0,9	-	-4,3	0,1	0,1	0,4	0,5	0,2	0,3	1,2
Germany	28,7	10,7	0,4	2,6	0,3	1,8	1,6	0,9	0,7	0,9	2,2
Estonia	-	-	:	:	-	:	:	:	:	:	-

Ireland	7,4	1,6	:	-0,7	:	:	-	0,1	-0,1	-	10,2
Greece	0,3	-	-	-	-	-	-	0,1	-	-	0,1
Spain	7,9	2,4	0,7	0,4	0,1	:	1,4	0,4	0,1	-0,8	0,5
France	22,7	1,2	-1,6	7,8	1,7	-0,4	1,3	0,9	0,2	2,1	3,0
Italy	6,0	0,8	0,1	-3,0	0,8	-0,2	0,5	0,1	0,4	-0,2	0,1
Cyprus	2,3	-	-	0,1	1,1	-	-	-	-	-	0,5
Latvia	-	-	-	-	-	-	-	-	-	-	-
Lithuania	-	-	-	-	-	-	-	-	-	-	-
Luxembourg	38,3	5,7	3,9	0,4	0,7	0,2	-3,2	0,4	-	6,6	24,3
Hungary (3)	0,5	0,2	-0,1	0,3	-	-	-	-	-	-	1,0
Malta	-	-	:	:	:	-	:	-	:	-	-
Netherlands (3)	13,5	-9,5	0,5	6,7	-0,5	0,8	-	-0,1	0,1	0,6	11,0
Austria (3)	5,3	0,2	-	:	0,7	-	-0,2	-	0,1	0,1	0,5
Poland	0,6	0,2	-	0,9	-0,2	-	-	-0,2	-	-0,1	-0,5
Portugal	-0,7	0,2	-	-	-	-	-	:	-	-0,6	0,2
Romania	-	-	-	-	-	-	-	-	-	-	-
Slovenia	0,2	-	-	-	0,1	-	-	-	-	-	-
Slovakia	0,1	-	-	-	-	-	-	-	-	-	-
Finland	1,2	-0,8	-	-1,2	0,4	-	1,4	-	0,3	-	0,6
Sweden	16,2	7,4	-	0,5	1,8	-0,2	0,4	-0,2	0,1	0,2	0,1
United Kingdom	12,5	-20,9	-9,2	9,4	:	0,4	:	-0,4	0,2	:	17,6

Source: *www.eurosat.ec.europa.eu*

FDI flows can oscillate considerably from one year to the next, influenced mainly by large mergers and acquisitions. Luxembourg's share (24 %) of EU-27 outward flows of FDI during the period 2007 to 2009 may be explained by the activities of special-purpose entities (SPEs), that represented about 85 % of total direct investments. SPEs also played an important role in a number of other EU Member States; this was especially the case in the Netherlands and Hungary. There was a 42 % increase in outward flows of FDI from Luxembourg between 2008 and 2009. As a result, Luxembourg became the principal EU-27 investor in non-member countries. The four main partner destinations of FDI from Luxembourg included Switzerland, the United States, Bermuda and the Bahamas, thereby revealing the importance of the financial sector.

Although the United Kingdom accounted for the second highest share of outward FDI among the EU Member States between 2007 and 2009, outward investment to non-member countries from the United Kingdom was almost cut in half in 2009. The reduction in investment flows was particularly marked for traditional partners such as the United States, Canada or Australia, while higher levels of investment were destined for the United Arab Emirates, New Zealand, Japan and India.

Table 2 : Foreign direct investment, EU-27, 2007-2010 (EURO 1000 milioane)

	Outward FDI flows					**Inward FDI flows**				
	2007	**2008**	**2009**	**2010**	**Share in 2009 (%)**	**2007**	**2008**	**2009**	**2010**	**Share in 2009 (%)**
0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Extra EU-27	550,7	387,3	280,6	*106,7*	100,0	423,8	170,7	215,7	*54,2*	100,0
Europe (non-EU), *of which*	85,2	65,3	38,8	:	13,8	20,7	29,0	16,8	:	7,8
Switzerland	39,6	25,2	43,9	*-7,4*	15,6	29,6	8,4	24,7	*6,2*	11,5
Russia	18,2	27,3	0,7	*-0,4*	0,2	10,5	0,5	2,7	*-0,4*	1,3
Croatia	2,5	2,2	2,5	:	0,9	0,0	-0,1	-0,1	:	0,0
Turkey	15,7	6,5	4,2	:	1,5	0,6	-0,3	1,2	:	0,5
Ukraine	5,3	7,3	3,0	:	1,1	0,4	0,5	0,0	:	0,0
Africa, *of which*	17,0	24,1	21,0	:	7,5	3,9	7,2	0,9	:	0,4
Egypt	1,5	10,6	2,1	:	0,8	-0,5	0,8	0,1	:	0,1
South Africa	5,1	3,0	5,9	:	2,1	1,9	2,5	1,0	:	0,5
North America, *of which*	204,4	154,9	78,3	:	27,9	201,3	57,7	108,8	:	50,4
Canada	30,6	6,7	-0,9	*-4,1*	-0,3	6,3	13,3	11,5	*27,7*	5,3
United States	173,8	148,2	79,2	*11,9*	28,2	195,0	44,4	97,3	*28,5*	45,1
Central America, *of which*	108,5	0,0	61,0	:	21,7	78,2	-15,3	30,7	:	14,2

Mexico	5,8	5,6	4,0	:	1,4	0,4	0,7	2,7	:	1,2
South America, *of which*	19,2	19,1	9,4	:	3,3	27,9	12,0	0,8	:	0,3
Argentina	2,4	4,1	0,8	:	0,3	-0,2	-0,3	0,4	:	0,2
Brazil	14,9	9,1	8,8	*6,2*	3,1	24,7	10,0	0,4	*3,8*	0,2
Asia, *of which*	55,0	72,9	28,1	:	10,0	39,9	72,5	18,2	:	8,4
Arabian Gulf countries	4,7	19,5	3,9	:	1,4	2,7	51,2	10,6	:	4,9
China (excl. Hong Kong)	7,2	5,2	5,8	*4,9*	2,1	0,8	-0,2	0,3	*0,9*	0,1
Hong Kong	7,2	5,6	2,0	*3,0*	0,7	5,9	2,7	1,3	*11,3*	0,6
Japan	10,2	2,5	-0,2	*-4,1*	-0,1	18,6	2,8	-0,8	*1,5*	-0,4
India	4,6	3,7	3,4	*3,0*	1,2	1,2	3,6	0,9	*0,6*	0,4
Singapore	8,7	21,7	1,7	:	0,6	10,6	2,2	2,8	:	1,3
Oceania, *of which*	10,2	18,5	-1,6	:	-0,6	7,1	-0,4	5,8	:	2,7
Australia	9,6	17,3	-2,7	:	-1,0	7,1	-0,3	5,8	:	2,7
Offshore financial centres	158,4	39,4	89,5	*21,1*	31,9	105,8	16,8	46,1	*-3,9*	21,4

Source: *www.eurosat.ec.europa.eu*

EU-27 outward and inward stocks (or positions) grew in 2009: outward stocks rose by 10 % and inward stocks by 7 %. In 2008, both inward and outward stocks had increased at a slower pace, rising by 3 % (see Table 3).

At the end of 2009, the biggest share (30.9 %) of EU-27 outward stocks of FDI was recorded for the United States, valued at some EUR 1 134 000 million. The services sector represented 70 % of EU-27 stocks held in the United States, and most of these were from financial intermediation (39 %), real estate and other business activities or manufacturing (both 22 %); for the latter, the main area of investment activity was the manufacturing of chemicals and chemical products. At the end of 2009, the main holder of EU-27 FDI stocks in the United States continued to be the United Kingdom, accounting around one quarter of the total. Switzerland was the second most important outward partner as regards EU-27 FDI positions in 2009, accounting for 14 % of total stocks; financial intermediation was the main activity for EU-27 investment in Switzerland. EU-27 stocks of FDI in Russia grew by 24 % between 2007 and 2009. Financial intermediation and manufacturing were the main areas of EU-27 investment in Russia, and FDI stocks in these two sectors were maintained during the period under consideration.

In Asia, the main positions for EU-27 stocks of FDI were found in Singapore, Hong Kong and Japan, while EU_27 stocks of FDI in China continued to grow in 2009 (up 11 % on the 2008 figure); the fastest expansions in EU-27 outward stocks of FDI across Asia were recorded in Malaysia, India and Indonesia (up by 82 %, 56 % and 22 % respectively between the end of 2008 and the end of 2009).

In Africa, the main positions for EU-27 stocks of FDI were found in South Africa (EUR 77.000 million), Nigeria (EUR 30.300 million) and Egypt (EUR 26.400 million). EU-27 outward positions in South Africa grew by 40 % between the end of 2008 and the end of 2009, such that South Africa became one of the EU-27's top ten FDI partners.

In 2009, the United States held 39 % of inward stocks of FDI in the EU-27; this share was valued at EUR 1 044 100 million at the end of 2009. The United States therefore consolidated its position as the main investor in the EU-27, with the main area of investment being the services sector, which accounted for 79 % of investment positions held by the United States in the EU-27 at the end of 2008. Switzerland was the second biggest holder of EU-27 FDI stocks, with EUR 347.900 million at the end of 2009, which was 10 % higher than a year before. Other countries with significant shares of EU-27 inward stocks included Japan, Canada, Brazil and Singapore. The relative importance of EU-27 FDI inward stocks was 10 % higher for Japan and 11 % higher for Canada at the end of 2009 (compared with a year before). The position of Brazilian investment in the EU-27 also rose, climbing 7 % between the end of 2008 and the end of 2009 – although this was a relatively modest increase when compared with far higher growth rates recorded during the period from the end of 2006 to the end of 2008.

Table 3 : Foreign direct investment, EU-27, 2007-2010 (EURO 1000 milioane)

	Outward				Inward			
	2007	2008	2009	Growth rate 2007-2009 (%)	2007	2008	2009	Growth rate 2007-2009 (%)
Extra EU-27	*3.231,6*	*3.319,8*	*3.665,6*	*13,4*	*2.447,9*	*2.522,3*	*2.707,2*	*10,6*
United States	1.027,1	1.089,5	1.134,0	10,4	1.027,2	1.014,6	1.044,1	1,6
Switzerland	458,0	462,9	503,3	9,9	323,6	315,7	347,9	7,5
Canada	142,6	142,7	157,5	10,4	103,0	108,1	119,5	16,1
Brazil	107,7	108,5	132,2	22,7	41,2	52,5	56,3	36,7
Singapore	66,7	89,2	95,8	43,7	45,0	39,3	50,2	11,4
Hong Kong	89,3	89,3	92,9	4,0	17,2	25,5	26,8	55,9
Russia	71,5	83,2	88,8	24,2	24,7	26,4	27,5	11,4
Japan	74,8	78,4	84,0	12,3	122,3	122,6	135,3	10,6
Australia	69,9	70,3	82,8	18,5	25,7	21,2	30,2	17,3
South Africa	55,1	55,1	77,0	39,7	6,0	6,8	6,2	4,1

Source: *www.eurosat.ec.europa.eu*

In a world of increasing globalisation, where political, economic and technological barriers are rapidly disappearing, the ability of a country to participate in global activity is an important indicator of its performance and competitiveness. In order to remain competitive, modern-day business relationships extend well beyond the traditional foreign exchange of goods and services, as witnessed by the increasing reliance of enterprises on mergers, partnerships, joint ventures, licensing agreements, and other forms of business co-operation.

FDI may be seen as an alternative economic strategy, adopted by those enterprises that invest to establish a new plant/office, or alternatively, purchase existing assets of a foreign enterprise. These enterprises seek to complement or substitute external trade, by producing (and often selling) goods and services in countries other than where the enterprise was first established.

There are two kinds of FDI: namely, the creation of productive assets by foreigners or the purchase of existing assets by foreigners (acquisitions, mergers, takeovers, etc.). FDI differs from portfolio investments because it is made with the purpose of having control or an effective voice in management and a lasting interest in the enterprise. Direct investment not only includes the initial acquisition of equity capital, but also subsequent capital transactions between the foreign investor and domestic and affiliated enterprises.

Conventional trade is less important for services than for goods. While trade in services has been growing, the share of services in total intra-EU trade has changed little during the last decade. However, FDI is expanding more rapidly for services than for goods, increasing at a more rapid pace than conventional trade in services. As a result, the share of services in total FDI flows and positions has increased substantially, as the service sector within the EU-27 has become increasingly international.

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