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GLOBAL CAPITAL FLOWS IN THE FORM OF FDI IN CONTEMPORARY WORLD

Introduction

The modern world economy rapidly became a global economy based on intra-industry division of labour, in which transnational corporations play the dominant role, simultaneously acting as international channels, through which goods, services, technologies, people and capital flow, especially in the form of direct investment. The feature that distinguishes FDI from other forms of international capital flows is that they cause the transfer of some or all the rights to manage the direct investment enterprise.

The aim of this essay is to present the scale and structure of international capital flows in the form of FDI. The essay has been prepared based on information contained in the World Investment Reports, published annually and prepared by the United Nations Conference on Trade and Development – UNCTAD.

1. Foreign direct investment (FDI) – the theoretical outline

In domestic and foreign studies, there are many definitions of foreign direct investment. As mentioned in the introduction, they are most commonly associated with the movement of capital resources but also technology transfer and management. W. Karaszewski, identify FDI with the making from scratch an independent, economic abroad activity, or taking over management of existing businesses.

Foreign investment is capital investments made outside the country of investors to take up economic activities there as a result of which is not only the transfer of financial resources, but also of specific capital goods. The character of these investments indicates the inseparability of accompanying motifs of income and control (participation in management).¹

In turn, according to the standard definition – determined by the OECD² – the concept of FDI means investment undertaken by the unit-resident in one economy (the „direct investor”) „to achieve sustainable impact (lasting interest) per unit resides in another economy” (known as „direct investment enterprise”). OECD emphasizes that „implies the existence of a lasting impact long-term relationship between the direct investor and the enterprise (direct investment) and a significant degree of influence on the management of the undertaking.”

An important factor in inducing the undertaking of foreign direct investment is to obtain competitive opportunities thanks to locate production on the spot³.

In considering the problem of location of foreign investment especially in the form of FDI can not forget about the theory of J.H. Dunning.⁴ This theory shows the existence of three dependencies that determine undertake foreign direct investment. They are: ownership-specific advantages, the specific locational advantages and the specific advantages of internalization⁵. This theory was confirmed in various empirical studies explaining the motives of FDI undertaking and resisted the critic, which threw a shadow of doubt as to its universality.⁶

¹ W. Karaszewski, *Bezpośrednie inwestycje zagraniczne. Polska na tle świata*, Dom Organizator, Toruń 2004, p. 19.

² *OECD Benchmark Definition Direct Investment* – Third Edition, Paris 1996, <http://www.oecd.org>.

³ *Ibidem*.

⁴ J. Dunning, *The Determinants of International Production*, Oxford Economics, Papers 1973, No. 3; *The eclectic paradigm as an envelope for economic and business theories of MNE activity* *International Business Review*, Volume 9, Issue 2, April 2000, p. 163–190.

⁵ *Międzynarodowe stosunki gospodarcze*, ed. J. Rymarczyk, PWE, Warszawa 2006, p. 113.

⁶ A. Buckley, *Inwestycje zagraniczne – składniki, wartości i ocena*, Warszawa 2002, pp. 119–120.

2. Global flows of foreign direct investment – size, structure, trends

Foreign investment is seen as one of the most important factors in the global economy. Their presence promotes technology transfer and improves the situation on local labor market. Foreign capital has the potential to reduce the “investment gap”, can contribute to modernize the region and improve the competitiveness. The importance of foreign capital is especially important in countries where there are a shortage of funds, which preclude making any investments. The importance of FDI can be measured by the size of their streams, that is, the value of investments made in individual years, and the multiplicity of their resources, i.e. the sum of the accumulated investments in the considered period.⁷

Half of the 80s twentieth century was a period, which began a marked acceleration of growth of international capital flows in the form of FDI. Global FDI inflows grew at an impressive rate: 23.1% – average annual in years 1986–1990, 21.1% in 1991–1995 and 40.2% in 1996–2000. As a result of the global stream of FDI inflow, which in the years 1980–1984 averaged was approximately 50 billion of dollars a year, rose to 209 billion of dollars in the year of 1990 and 1393 billion of dollars in 2000. Table 1 presents international direct investment flows in the years 1995–2008 in billion USD.

The literature gives several reasons for the increase of FDI in the year of 1985. As the principal reason give the rapid development of technology, integration processes and changes in the economic policy of individual countries, as well as the privatization and deregulation of certain branches or industries. In years 2001-2002 recorded declines in global capital flows, which in turn, resulted in decreases in economic development in the United States, or many EU countries, whether associated with this decreasing corporate profits and the willingness of TNCs to finance the flows in the form of FDI.⁸

The next years brought periods of growth in international flows of foreign direct investment in the world. From years 2002–2008, these investments had increased by 1,033.3 billion of dollars. In 2008, amounting to 1658.5 billion USD.⁹

⁷ J. Świerkocki, *Zarys międzynarodowych stosunków gospodarczych*, PWE, Warszawa 2004, p. 93.

⁸ T. Michałowski, *Międzynarodowe przepływy kapitałowe we współczesnej gospodarce światowej*, ed. E. Oziewicz, PWE, Warszawa 2006, pp. 110–111.

⁹ *World Investment Report 2008*, p. 9, *World Investment Prospects Survey 2009–2011*, p. 46.

However, according to data compiled by the UNCTAD, the global value of FDI inflows in the world in the year of 2008 fell by 21% to about 1.4 trillion of dollars. In the year of 2008, the volume of direct foreign investments decreased eg: in Finland, Germany, Hungary, Italy and in the Great Britain. Reducing income in developed countries, transnational corporations and the decline in bank loans were particularly affected on constraining the size of financial investments. There had been a fall in transaction volumes associated with international acquisitions and mergers. International mergers and acquisitions in developed countries fell by 33% in the year of 2008.

Developing countries and economies in transition were more resistant to changes in the outflow of foreign direct investment and the effects of global economic crisis. The growth rate of FDI inflows to developing countries, however, was in 2008. lower than in 2007 (when it exceeded 20%), it is estimated that it will still remain positive but at levels not exceeding 4%.

The countries of Southeast Asia (the largest recipient of FDI – nearly half of all flows to developing countries) in the year of 2008 recorded an increase in the value of invested foreign capital, but it was slower than in 2007. According to UNCTAD estimates the flows to western Asia will tend to fall (now drop more than 20%), after recording level registered in the previous year. The reason was the slower growth in demand for oil, rising costs and lower revenues from the export of this commodity (because of lower prices). Meanwhile, the countries of Latin America and the Caribbean so far have shown significant resistance to the world economic slowdown, which resulted in unchanged condition of FDI.

As with other economic activities, the foreign direct investment also had undergone dramatic changes since the end of 2008. The uncertainty of profits, limited access to financial resources and a declining market, as well as a clear risk of worsening the economic situation during the crisis was one of the reasons for declines in FDI inflows, which can be clearly seen in 2009 (Figure 1, 2).

The crisis in world markets was reflected in significant drops in investment and economic slump in developed countries. This resulted in a reduction in the number of mergers and acquisitions as well as intra-corporate loans. These trends were confirmed by UNCTAD, where, according to the report, “World Investment Prospects Survey 2009–2011” in the short term sill will be recorded a large drop of foreign direct investment.

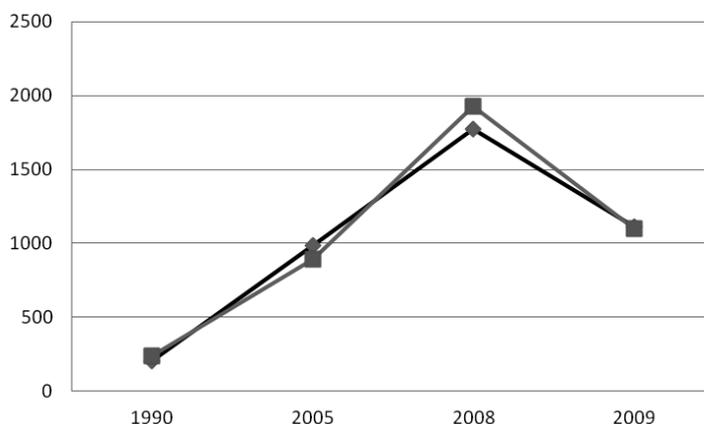


Figure 1. The size of global capital flows in the years 1990–2009 in trillion USD (current prices)

Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdi statistics); UNCTAD, GlobStat; and IMF, *International Financial Statistics*, June 2010.

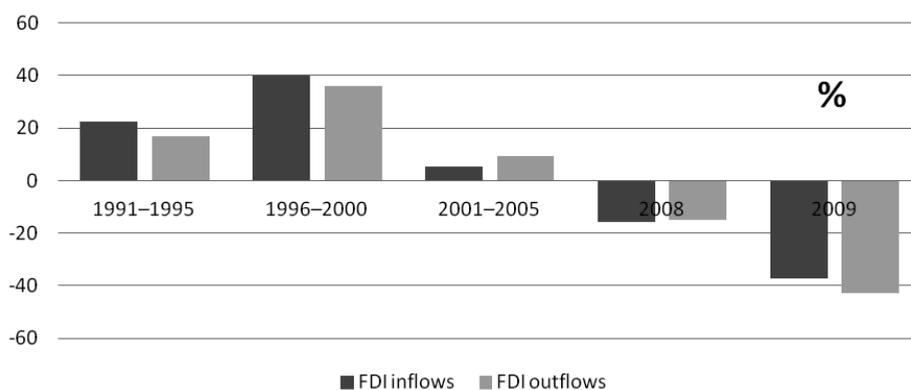


Figure 2. Annual growth of world capital flows in the years 1991–2009 (%)

Source: as a Figure 1.

The drop of the FDI inflow in 2009 has reflected the poor economic performance in many parts of the world, and limited financial capacity of many transnational corporations – TNCs, which in turn, resulted in reduction of the size of reinvested profits, and decrease the overall capital flows as well as mergers and acquisitions. Global mergers and acquisitions developed in 2009 at a low level of

Table 1
International direct investment flows in the years 1995–2008 (billion USD)

The flow direction	FDI inflows 1995–2000	FDI outflows 1995–2000	FDI inflows 2002	FDI outflows 2002	FDI inflows 2003	FDI outflows 2003	FDI inflows 2004	FDI outflows 2004	FDI inflows 2005	FDI outflows 2005	FDI inflows 2006	FDI outflows 2006	FDI inflows 2007	FDI outflows 2007	FDI inflows 2008 ^a	FDI outflows 2008 ^a
Home region	539.3	631	442.9	483.2	361.1	507	403.7	786	611.3	748.9	940.9	1087.2	1247.6	1692.1	1001.8	1536.9
Developed economies	327.9	450.9	316.6	279.9	279.8	307.1	218.7	402.2	505.5	689.8	599.3	736.9	848.5	1216.5	559	990.3
Europe	4.6	25.1	9.2	32.3	6.3	28.8	7.8	31.1	2.8	45.8	-6.5	50.3	22.5	73.5	19	127.4
Japan	169.7	125.9	74.5	134.9	53.1	129.4	135.8	294.9	104.8	15.4	236.7	221.7	232.8	313.8	320.9	298.6
USA	188.3	74.4	171	49.6	180.1	45	283.6	120	316.4	117.6	413	212.3	499.7	253.1	549.1	274.1
Developing economies	9	2.4	14.6	0.3	18.7	1.2	18	2	29.5	2.3	45.8	7.8	53	6.1	72	..
Africa	72.9	21.1	57.8	12.1	45.9	21.3	94.4	28	76.4	35.8	92.9	63.3	126.3	52.3	139.3	36.1
Latin America and the Caribbean	106.4	51	98.6	37.3	115.5	22.5	171.2	89.9	210.6	79.5	274.3	141.1	320.5	194.8	337.8	239.6
Asia and Oceania	734.9	707.4	625.2	537.4	561.1	562.8	717.7	920.2	958.7	880.8	1411	1323.2	1833.3	1996.5	1658.5	1868.9
World																

^a *World Investment Prospects Survey 2009–2011*, p. 46.

Source: based on UNCTAD, *World Investment Report 2008*, p. 9.

250 trillion of dollars. In the first five months of 2010 there have been the growth of these investments by 36%. By recovering each country from the economic crisis, it can be concluded further increase in FDI flows.

So it is not yet clear when it's expected a significant increases in foreign investment and which countries, regions or industries will be most favored by major investors – TNCs. The mood among TNCs, however, are becoming more optimistic as evidenced the results of a report published in 2010. by UNCTAD – “The World Investment Prospects Survey 2010–2012.” Projections of the FDI flows for the coming years illustrates Figure 3. The authors of the report predict an increase of FDI in 2011 to 1.3–1.5 trillion of dollars and between 1.6 and 2 trillion of dollars in 2012.

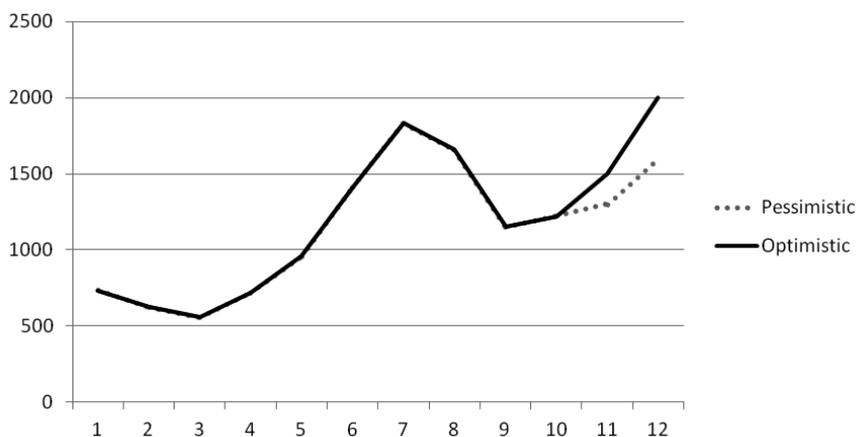
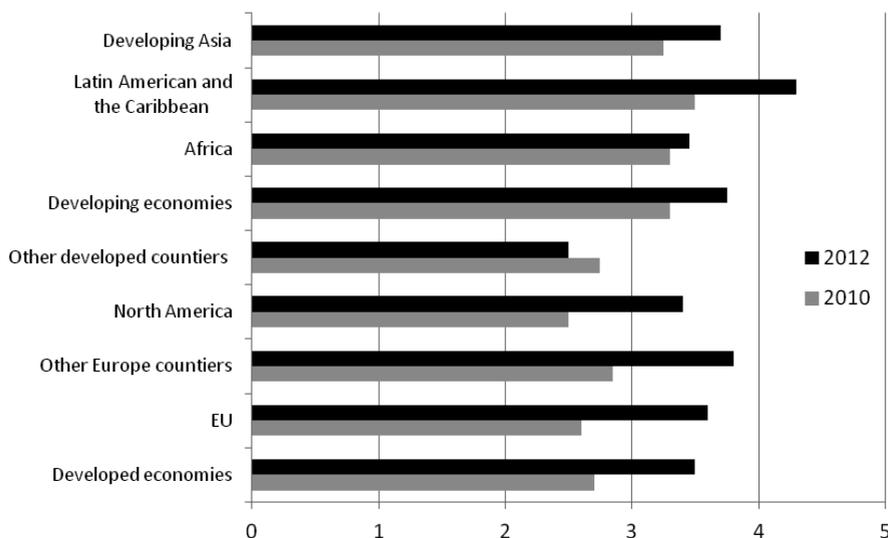


Figure 3. Projections to 2012 for the inflow of FDI in the world relating to years 2002–2009 (USD billion)

Source: based on *World Investment Prospects Survey 2010–2012*, UNCTAD, p. 8.

Analyzing the structure of capital flows in the form of FDI in 2010 we need to note that the largest share in the global flows were the developed countries (49%), in it the EU and developing countries (45%), where China, India accounted for 8% and 6% of global FDI flows (Figure 5). Global rankings of the largest FDI recipients confirm the importance of developing countries and transition economies in global FDI flows, which presents a graph of the fifth.



* 5 – attitude v. optimistic, 1 – attitude v. pessimistic.

Figure 4. The level of optimism / pessimism in the context of TNCs investment climate in the years 2010 and 2012

Source: Based on. *World Investment Prospects Survey 2010–2012*, UNCTAD, p. 10.

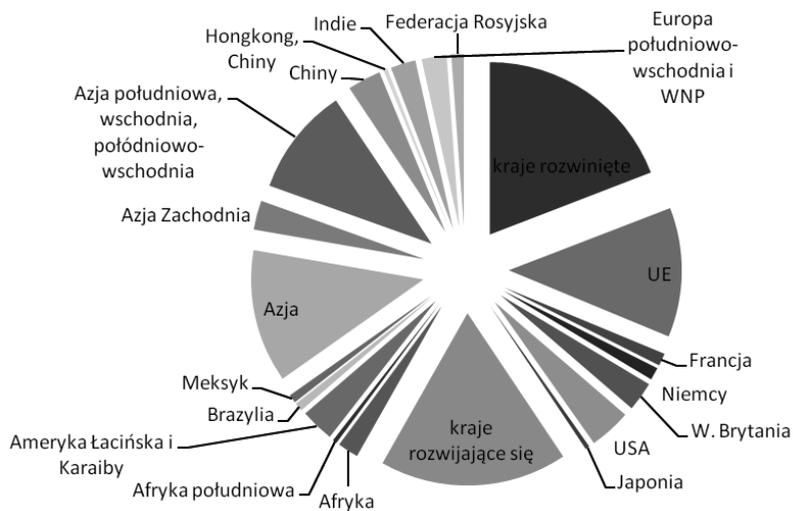


Figure 5. Global structure of FDI in 2010 (%)

Source: *World Investment Report 2010*, UNCTAD 2010, p. 4.

Observing activity of TNCs in the form of foreign direct investment can be seen (Table 2, 3) that the participation of corporations from the countries of the triad is slowly declining in favor of developing countries and transition economies. What's even more highlights the importance of these countries in the flows of capital in the FDI form.

Table 2

The 100 largest non-financial corporations in the world in 2008

Home region	Average TNI*	Number of entries
Total	63.4	100
EU	67.6	58
France	66.6	15
Germany	56.9	13
United Kingdom	75.5	15
Japan	50.0	9
United States	58.1	18
Developing and transition economies	50.7	7

* TNI, the transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Source: *World Investment Prospects Survey 2010*, UNCTAD, p. 18.

Table 3

The 100 largest TNCs from developing countries and economic transformation in 2008

Home region	Average TNI*	Number of entries
Total	48.9	100
Africa	58.8	9
Latin America and the Caribbean	42.5	9
West Asia	50.6	7
East Asia	51.1	47
South Asia	57.9	5
South-East Asia	47.5	15
South-East Europe and the CIS	27.2	8

* TNI, the transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Source: as a Table 2.

Despite the crises, the degree of internationalization of TNCs worldwide has increased by 1 percentage point compared with the year of 2007. In the case of developing countries and transition economies, this index has been a slight decline.

Conclusion

A gradual improvement in macroeconomic conditions and the related national policies and investment promotion agency (IPA) should have a favorable impact on global capital flows in the form of FDI. A recent report by UNCTAD – *World Investment Prospects Survey* seems to confirm this hypothesis, indicating a revival in the global flows of foreign investment. Estimating growth in the year of 2012 to between 1.6 and 2 trillion of dollars.

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**GLOBALNE PRZEPLYWY KAPITAŁU W FORMIE BIZ
WE WSPÓŁCZESNYM ŚWIECIE****Streszczenie**

Współczesna gospodarka światowa w szybkim tempie stała się gospodarką globalną opartą na wewnątrzgałęziowym podziale pracy, w którym dominującą rolę zajmują korporacje transnarodowe (KTN) pełniące rolę międzynarodowych kanałów, przez które przepływają dobra, usługi, technologie, ludzie i kapitał zwłaszcza w postaci inwestycji bezpośrednich. Cechą odróżniającą BIZ od innych form międzynarodowych przepływów kapitałowych jest to, że powodują przeniesienie części lub całości praw do zarządzania przedsiębiorstwem bezpośredniego inwestowania.

W dobie kryzysu BIZ poddane zostały dramatycznym zmianom. Niepewność zysków, ograniczony dostęp do środków finansowych oraz rynek o tendencji spadkowej, jak również wyraźne ryzyko pogorszenia sytuacji gospodarczego w okresie kryzysu są jednym z powodów spadków napływu BIZ w ostatnich latach.

Niestety jeszcze nie jest jasne, kiedy można się spodziewać znaczących wzrostów inwestycji zagranicznych i które z krajów, regionów, czy branż będą najbardziej uprzywilejowane przez głównych inwestorów. Nastroje wśród KTN są jednak coraz bardziej optymistyczne, o czym świadczą wyniki raportu World Investment Prospects Survey 2010–2012 opublikowanego przez UNCTAD w 2010 roku.

Tłumaczenie Katarzyna Puchalska

