

# Foreign Direct Investment in the European Union

Corneliu Russu

Centre for Industry and Services' Economy, Romanian Academy, 125 Calea Victoriei, Sector 1, 010071,  
Bucharest, Romania  
e-mail: corneliu\_russu2007@yahoo.com

## Abstract

*The paper deals with complex issues of FDI inflows and outflows toward, respectively, from the EU, and their impact on host countries and countries of origin, at Community level and that of some member countries. Critical analysis achieved in these respects reveals positive sides and deficiencies of government policies for FDI attracting and turning to account. Frequent references are made about Romania's position within the EU ensemble.*

**Keywords:** *foreign direct investment; FDI inflows; FDI outflows; FDI stock; FDI impact*

**JEL Classification:** *F21*

## Introduction

Foreign Direct Investment (FDI) is a primary form of international capital flows that are recorded today in the world economy. For the receiving country, this form of capital flow is beneficial in at least three respects: the reception of investment capital while the availability of equity are reduced or absent; technology transfer which helps modernize obsolete technologies sectors and/or the emergence of new sectors; the opportunities for economy's restructuring in sectors targeted by foreign capital significantly increase their share in GDP.

FDI effects on receiving or host countries vary widely from country to country and are subject to many factors, among which the most important are the overall level of economic and social development, capacity of efficient FDI absorption, availability of natural resources, state of energy, transport, communications and public services infrastructures, national scientific and innovation potential.

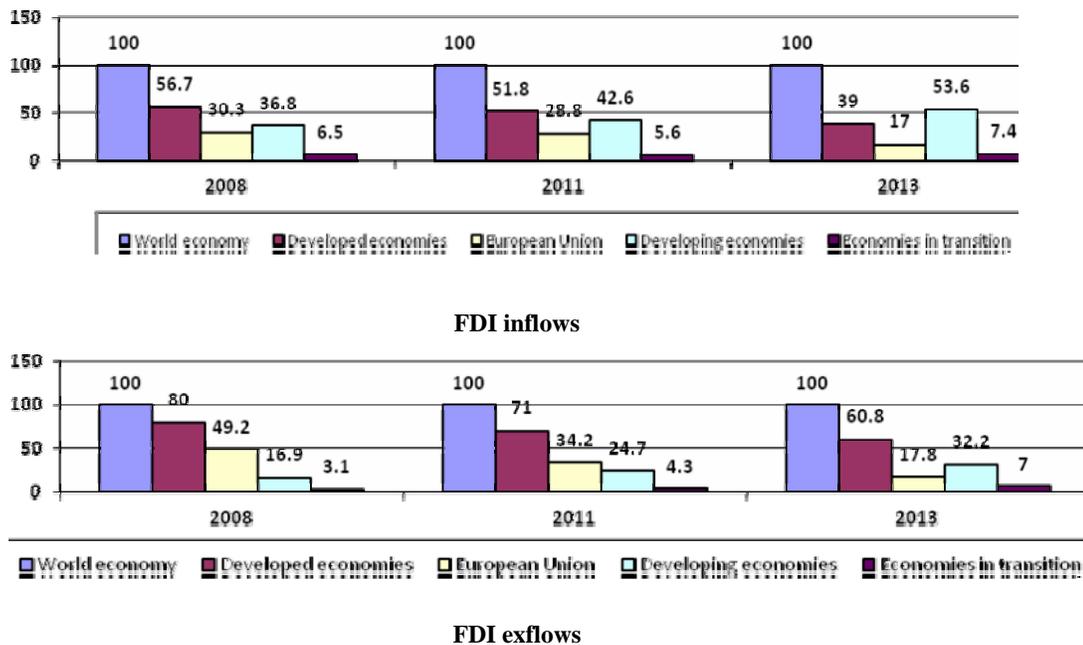
The main drivers of FDI are large transnational companies (TNCs) and multi-national companies (CMN), characterized by a considerable productive, technological and financial potential, strategies globally designed and implemented differently in various receiving countries. In the last decade and a half, the picture of global FDI flows has changed significantly, however, those from emerging countries significantly increasing their share in volume of global investment flows.

The benefits generated by FDI and the spectacular growth of their volume particularly since 2000 do not blur reality, as proven by empirical evidence that their effects continue to be contradictory. Variation outlined above of FDI effects on economic growth of receiving countries emphasizes the idea that the increasing FDI flows do not automatically increase the

competitiveness and economic growth, but should be supported by national factors, firstly the quality of human capital and the level of financial market maturity.

## World Developments

Picture of global FDI flows shows, in recent years, several major trends: the drastic reduction of total inflows since 2008, the year of global financial crisis starting, with a minimum in 2009, followed by a peak in 2011, falling in 2012 and recovery in 2013, the last year marking an increase of 9.2% over the previous year and a level of 1452 billion USD (UNCTAD, 2014) (evolution shows how tough was the crisis and how extensive its effects); volume of inflows recorded by developed economies (from which Romania is considered part!?) decreased, in 2008-2013, by 17.7 percentage points, while the corresponding volume in emerging economies has increased continuously in the same interval by 17.6 p.p., reaching in 2013 to have a share of 53.6% in total, compared to 39.0% covered by developed economies; total FDI inflows volume recorded, in the same period, a decrease of 17.6%, that recorded by the developed countries was reduced by 19.2 p.p., and the corresponding volume to developing countries increased by 15.3 p.p. (see figure below); economies considered in transition registered, in the same period, increases of their share in inflows by 0.9 p.p., and exflows by 3.9 p.p.



**Fig. 1.** FDI flows at the world level and by categories of countries (%), 2008, 2011, 2013

Note: Economies in transition include Albania, Bosnia and Herzegovina, Serbia, Montenegro, Former Yugoslav Republic of Macedonia, the Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan), Georgia

Source: processing performed by the author of data from UNCTAD, op. cit., Appendix table 1 - FDI Flows, by region and economy, 2008-2013, pp. 205-208

EU, although significantly reduced its shares in the value of global FDI flows on both the inflows and exflows side, continue to play an important role, outperforming in most analysed years, with the exception of 2013, the weights of North America Region (USA and Canada) in both streams; reduction in 2013 was caused by the eurozone crisis, which greatly reduced the investment potential of Community companies.

## Trends, Structures and Determinants of FDI Inflows in the EU and Some Member Countries

EU as a whole constitutes an economic entity which presents substantial competitive advantages that make it particularly attractive to foreign investment in the global market - highly educated and skilled workforce, higher productivity, permissive legislation, appreciable technological and scientific potential, developed infrastructures. The existence of these advantages and substantial FDI inflows reduction registered after 2007, covering both extra-EU and, especially, the intra-EU flows, raises natural question marks about causes on these developments.

The global financial crisis and the global recession that caused it in 2008-2009 have strongly hit the EU FDI inflows, these being reduced to half in 2008 compared with 2007, when they recorded a peak. According to the same source cited above, the volume of FDI inflows of the EU was, in 2008, 2011 and 2013, respectively 551.4 billion USD, 490.4 bn. USD, and 246.2 bln. USD, throughout the period the decline being of 55.4%. The only countries that registered increases in inflows during that time were Austria - by 61.6%, Denmark - 14.2%, Germany - 3.3 times, Ireland - 38.1%, Luxembourg - 78.5% (compared to 2009), the Netherlands - 5.4 times. Drastic cuts recorded Bulgaria - 85.3%, Hungary - 51.2%, Czech Republic - 22.6%, Poland - 59.2% (in 2012 compared to 2008, in 2013 passing minus) Romania - by 74.0%, Slovakia - by 87.9%, not to mention only former socialist countries (UNCTAD, 2014, p. 205).

In 2014 cuts widened and generalized so that, compared with levels in 2000, the overwhelming majority of member countries registered decreases, except Bulgaria, Finland, Portugal and Hungary, during 2007-2014 declines being particularly steep in most countries (except Finland, Germany, Portugal and Hungary), but especially in Austria, Bulgaria, Czech Republic and Romania (see table below).

**Table 1.** FDI inflows in some member countries, in 2000, 2006, 2007, 2014 (billion USD)

	2000	2006	2007	2014
<b>Austria</b>	8,501	4,755	25,484	4,675
<b>Bulgaria</b>	1,017	7,805	12,389	1,710
<b>Czech Republic</b>	4,985	5,463	12,389	1,710
<b>Finland</b>	8,834	7,652	12,451	18,624
<b>France</b>	27,495	25,326	63,499	15,191
<b>Germany</b>	198,277	55,654	12,451	18,625
<b>Italy</b>	13,375	42,581	43,849	11,451
<b>Netherlands</b>	63,855	13,978	19,635	30,253
<b>Poland</b>	9,445	18,381	21,642	13,883
<b>Portugal</b>	6,560	10,594	2,875	8,807
<b>United Kingdom</b>	121,898	148,740	181,661	72,241
<b>Romania</b>	<b>1,057</b>	<b>10,598</b>	<b>9,732</b>	<b>3,234</b>
<b>Slovakia</b>	2,720	5,803	4,017	0,479
<b>Spain</b>	39,575	30,802	64,264	22,904
<b>Sweden</b>	23,433	27,532	28,846	10,036
<b>Hungary</b>	2,764	6,818	3,951	4,039

Source: UNCTAD, 2014. Annex Tables. 01. FDI inflows, by region and economy, 1990-2014

It should be noted that FDI flows vary widely from year to year, as shown in the table for successive years 2006 and 2007, when the size of the inflows increased or decreased several times: growth for Austria – by 5.36 times, France - 2.51 times, the Netherlands - 8.56 times, Spain - 2.09 times; decrease for Germany - 4.47 times, Portugal - 3.68 times and so on.

These steep changes have many causes whose identification requires detailed analysis of each case. Other issues highlighted by the figures in the table are: most developed EU countries are receivers of massive FDI inflows, but a good part of them, except Finland, experienced high

reductions in inflows during 2000-2014; FDI volumes attracted by former socialist economies are, generally, modest, except Poland, have increased substantially before and after their accession to the EU, and fell sharply until 2014, except for Hungary; Romania is no exception to this development feature of former socialist countries, in 2006 recording a peak compared to values registered in the other years present in the table, and in 2014 attracting FDI higher than those recorded by the Czech Republic or Bulgaria.

FDI inward stock, as a percentage of GDP, increased in 2008-2012, except in Belgium - reduction by 42.4%, Denmark - 1.3%, Greece - 13.8 %, France - 25.9%, the Netherlands - 0.9% (EUROSTAT). The biggest increases in this indicator recorded Malta - 19.1 times, Ireland - 2.2 times, the United Kingdom - by 57.9%, Poland - 45.6%, Hungary - 37.7% Portugal - by 31.6%, Romania - by 29.5%, Czech Republic - by 28.0%.

FDI inflows registered by the EU present a high degree of concentration, more than half of them being covered by investors from the United States, EFTA countries and Switzerland; for example, FDI inflows from the United States were not affected by the global crisis and have come to represent about 45% of total extra-EU inflows. Meanwhile, inflows from developing countries have increased substantially, growing their share in the total volume of inflows, although they remain significantly behind those coming from developed countries; the most important positions are occupied by Asian countries, especially China and India. Among manufacturing industries, those targeted mainly by FDI inflows coming from extra-EU countries were the chemical industry (about 14%) and food (about 8%); much less aimed was the automotive industry (3%), despite its strong opening to the outside.

The attractiveness of member countries for foreign investment varies widely, depending on location advantages they present and whose range is considerable. Despite the fact that - although there are great differences between countries regarding the determinants of their attractiveness for FDI (on policies related to FDI, economic conditions and business facilities offered) - these factors are, generally, favourable, net FDI inflows to GDP fell sharply after 2007 to 2014 in all countries, except Portugal, according to figures in the following table.

**Table 2.** The share of FDI inflows to GDP and stock of FDI inflows to GDP in some member countries, in 2000, 2006, 2007 and 2014

	FDI inflow/GDP (%)				FDI inflow stock/GDP (%)		
	2000	2006	2007	2014	2000	2007	2014
<b>European Union</b>	-	-	-	-	22,8	38,9	49,6
<b>Austria</b>	4,3	3,1	17,8	1,9	15,8	41,2	41,4
<b>Bulgaria</b>	7,6	23,0	31,0	3,5	20,2	86,8	83,3
<b>Czech Republic</b>	8,1	3,6	5,6	2,4	35,2	59,5	59,1
<b>Finland</b>	7,3	2,1	8,6	5,4	19,3	35,9	49,1
<b>France</b>	3,1	3,4	3,1	0,3	13,4	23,4	25,6
<b>Germany</b>	10,8	2,9	1,5	0,2	13,9	20,2	19,3
<b>Italy</b>	1,2	2,0	1,8	0,6	10,7	17,1	17,4
<b>Netherlands</b>	15,3	51,6	87,4	5,5	58,8	95,6	76,7
<b>Poland</b>	5,4	6,3	5,8	3,2	19,5	40,1	44,8
<b>Portugal</b>	5,6	6,3	2,5	5,4	27,0	49,8	47,2
<b>United Kingdom</b>	7,9	7,9	7,1	1,5	29,8	33,1	56,5
<b>Romania</b>	2,8	9,3	6,0	1,9	18,6	35,9	37,4
<b>Slovakia</b>	7,0	5,8	4,5	0,1	33,6	62,1	53,2
<b>Spain</b>	6,5	2,6	5,0	2,5	26,2	39,5	51,3
<b>Sweden</b>	9,2	5,4	9,1	-0,4	36,1	60,3	56,3
<b>Hungary</b>	5,9	16,3	50,8	9,0	48,5	68,9	71,7

Source: for FDI inflow/GDP - World Bank Data, World Development Indicators, FDI net inflows (% of GDP); for FDI inflow stock/GDP - UNCTAD. World Investment Report 2015: Annex Tables. 07. FDI inward stock as a percentage of gross domestic product, 1990-2014

For this indicator, the steepest declines during 2007-2014 have registered, in descending order, Slovenia, the Netherlands, France, Austria, Bulgaria.

As regards developments in the FDI inflows stock as a percentage of GDP, the figures demonstrate the existence of economies with a strong presence of FDI as those of Bulgaria, the Netherlands, Hungary, Czech Republic, United Kingdom, Sweden, Slovakia, Spain, where their the share in GDP exceeded 50% in 2014; three developed countries - France, Germany and Italy - have registered, in the same year, modest shares, below the European average. Romania is, from this point of view, to an average level, below the EU average, proving lower attractiveness for FDI compared to other former socialist countries present in the table.

### Trends, Structures and Determinants of FDI Exflows from the EU and Some Member Countries

The EU's role as a key actor on the world stage of FDI flows was also asserted itself as regards the FDI it carried outside, weights it had in global FDI exflows being higher than those recorded by inflows in 2008 and 2011, and slightly higher in 2013, according to figures shown in Figure 1. As regards the FDI exflows, it comes out that the EU's share in the global volume of exflows decreased of almost 2.8 times in favour of other developed countries and developing economies.

Countries with the largest FDI exflows in 2014 were, in descending order, Germany, France, Netherlands, Spain, Italy, Sweden. As with FDI inflows that fell significantly during 2007-2014, and exflows sharply decreased in the same period in most countries, increasing only in Poland and Portugal, as shown by the figures in the table below.

**Table 3.** FDI exflows of the EU and some member countries, in 2000, 2006, 2007 și 2014 (billion USD)

	2000	2006	2007	2014
<b>European Union</b>	793,657	652,270	n.a.	280,124
<b>Austria</b>	5,509	11,913	36,083	7,691
<b>Bulgaria</b>	0,003	0,177	0,282	0,215
<b>Czech Republic</b>	0,043	1,468	1,620	-0,529
<b>Finland</b>	24,030	4,804	7,203	0,575
<b>France</b>	161,947	76,769	110,643	42,869
<b>Germany</b>	56,557	116,680	169,321	112,227
<b>Italy</b>	6,686	43,796	96,231	23,450
<b>Netherlands</b>	75,634	72,582	55,605	40,809
<b>Poland</b>	0,017	7,661	3,487	5,204
<b>Portugal</b>	8,055	6,210	5,261	6,664
<b>United Kingdom</b>	235,398	75,853	319,329	-59,629
<b>Romania</b>	-0,013	0,423	0,278	-0,077
<b>Slovakia</b>	0,041	0,632	0,673	-0,123
<b>Spain</b>	58,213	104,248	137,052	30,688
<b>Sweden</b>	40,906	26,672	38,841	12,156
<b>Hungary</b>	0,621	4,346	4,299	3,381

Source: UNCTAD: World Investment Report 2015: Annex Tables. 02. FDI outflows, by region and economy, 1990-2014

The main aspects which can be highlighted based on the data in the table are: Germany remains by far the strongest investor abroad among all member countries, even if the volume of its investments declined in 2014 by about 34% as compared to that achieved in 2007; developed countries that were massive investors abroad in 2000 - the UK, France, the Netherlands - drastically reduced the volume of their investments until 2014, the UK recording a big minus; former socialist countries started from very modest levels of their investments abroad in 2000

and it remained in narrow limits throughout the analysed period, in 2014 the Czech Republic, Romania and Slovakia even registering negative values; Romania has low values for this indicator, far below values recorded by Hungary, and in 2007 and 2014, below the values achieved by Bulgaria; in one year, from 2006 to 2007, the United Kingdom has increased its FDI exflows by 4.21 times and Italy by 2.2 times, which constitute examples of skilful exploitation of investment opportunities appearing on the global market; on the whole EU, FDI exflows fell sharply in the indicated period, their volume in 2014 representing only 35.3% of that recorded in 2000.

FDI exflows progressive accumulation led, naturally, to continue growth of their stock, reflected by the figures in the table below.

**Table 4.** The evolution of FDI flows stock and its share in GDP of the EU and some member countries in 2000, 2006, 2007 and 2014

	FDI exflows stock (billion USD)				Share of FDI exflows stock in GDP (%)			
	2000	2006	2007	2014	2000	2006	2007	2014
<b>EU</b>	2948,579	6438,617	7958,161	10434,829	32,3	42,1	45,0	56,4
<b>Austria</b>	24,821	105,697	150,299	223,246	12,6	31,6	38,8	51,1
<b>Bulgaria</b>	0,067	0,453	0,813	2,195	0,5	1,3	1,9	3,9
<b>Czech Republic</b>	0,738	8,557	12,531	19,041	1,2	3,2	4,5	9,3
<b>Finland</b>	52,109	96,207	116,531	164,554	41,4	44,4	45,6	60,7
<b>France</b>	365,871	823,515	1010,034	1279,089	26,7	35,4	37,9	44,9
<b>Germany</b>	541,866	1081,316	1331,751	1583,279	27,7	36,0	38,7	41,0
<b>Italy</b>	169,957	313,207	417,875	548,416	14,8	16,1	18,9	25,5
<b>Netherlands</b>	305,461	841,255	997,133	985,256	73,7	110,8	119,5	113,7
<b>Poland</b>	0,268	10,302	15,006	65,216	0,2	3,0	3,5	11,9
<b>Portugal</b>	19,794	52,068	67,726	58,355	16,7	24,9	28,2	25,4
<b>United Kingdom</b>	923,367	1439,100	1802,523	1584,147	59,5	55,6	60,8	53,8
<b>România</b>	0,136	0,879	1,240	0,696	0,4	0,7	0,7	0,3
<b>Slovakia</b>	0,555	1,520	2,081	2,975	2,7	2,7	2,7	3,0
<b>Spain</b>	129,194	436,069	582,057	673,989	21,6	34,5	39,3	47,9
<b>Sweden</b>	123,618	262,358	331,607	379,528	47,6	62,5	68,0	66,6
<b>Hungary</b>	1,280	13,662	19,290	39,641	2,7	12,0	13,9	28,9

Source: for FDI exflows stock – UNCTAD.World Investment Report 2015: Annex Tables. 04. FDI outward stock, by region and economy, 1990-2014; for Share of FDI exflows stock in GDP – Ibidem. Annex Tables. 08. FDI outward stock as a percentage of gross domestic product, 1990-2014

Comments regarding the figures in this last table are, naturally, congruent with those made about the preceding one. Moreover, these figures reveal the effects of government policies followed in different countries that have encouraged more or less investments abroad. It is noteworthy, for example, in this regard, notable performance of Hungary, which managed, in 2014, to record a stock of FDI abroad more than 2.08 times compared to the Czech Republic, and 57 times to Romania. It is also to highlight the example of Poland, which has increased continuously and spectacular its FDI stock abroad, that recorded in 2014 was 243 times greater than that in 2000, given that the country has successfully coped with the effects of global crisis. As regards the other developed member countries included in the table, they demonstrate their investment force by appreciable stocks accumulated, the Netherlands and the UK being the only (along with Portugal and Romania) which recorded reductions in stock in 2014 compared with 2007.

More relevant for the abroad investment force of economies is the share of FDI outward stock to GDP of each country, from this standpoint the disparities between the developed countries and the least developed former socialist appear obvious, as shown by the figures on the right side of the previous table.

Countries with the largest abroad investment potential, shown in 2014 in terms of this indicator, were, in descending order, the Netherlands, Sweden, Finland (located above the EU average), the United Kingdom, Austria, Spain, France, Germany. It should be noted that small countries which do not appear in the table have been recorded, in 2014, outstanding values of this indicator, which shows strong outward orientation of their economies, including through FDI: Malta - 420.5%, Ireland - 254.8 %, Luxembourg - 240.2%, Cyprus - 180.1%.

Share of FDI made outwards by the EU in GDP is higher than FDI from outside made in the whole community, which shows its considerable investment strength. The same remark applies to most developed member countries - Germany, France, Netherlands, United Kingdom (except in 2014), Sweden, Austria (for 2014). Conversely, in the case of former socialist countries the share of FDI inflows stock in GDP has been consistently and significantly higher than that of the FDI outflows stock, demonstrating the urgent need of these economies to modernize and get superior efficiency on the basis of foreign capital, but also their still small potential for investing abroad but growing rapidly in Hungary, Poland and the Czech Republic.

Romania has the weakest position in this regard compared to other former socialist countries, the ratio between the share of FDI inflows stock and that of FDI outflows stock in GDP having the lowest value: Romania - 0.008; Hungary - 0.403, Poland - 0.266, Czech Republic - 0.157, Slovakia - 0.056, Bulgaria - 0.047.

## **Effects of FDI Inflows in the EU on Host Countries**

Ways and means by which FDI influences growth of host economies and companies are multiple: capital contribution, which has long-term stability and, therefore, is safer when compared to portfolio investment; technology contribution, which sometimes has exclusiveness; managerial, marketing and financial know-how contribution, which significantly improves how to perform operations; providing access to new markets that can expand exports of goods and services of host country's companies; sharing best practices for using clean technologies, environmental protection, etc., which contribute substantially to increasing the competitiveness of recipient firms. The shown effects of FDI can be directly manifested on the host company, and indirectly, which may take, for example, the shape of technological spillover occurring at the scale economy.

These virtues of FDI are potential, materialization of their effects depending on the action of determinant factors manifested at the scale of host company and spread to the host economy, as well as FDI characteristics - their orientation to resources, markets, efficiency, strategic assets; how to enter the host country's economy (greenfield, mergers and acquisitions); targeted economic sectors (manufacturing, construction, trade, etc.); targeted sectors in manufacturing industry (traditional industries, high-tech industries, etc.).

European Competitiveness Report 2012 of the European Commission devotes a chapter to FDI flows and industrial competitiveness of the whole community, in which a review of the effects of investment on host countries' economies is made (European Commission, 2012, pp. 131-150).

On productivity the mentioned document highlights the results of empirical research demonstrating that this indicator has a higher level in foreign investment firms compared with domestic ones, a partial explanation may be that foreign investments usually address the best companies from each sector. Thus, in 2008, labour productivity, expressed in value added per person employed, was, in manufacturing, of 29,000 euros in foreign investment companies and 17,000 euro in domestic companies; for EU12 (new member states integrated in the EU in 2004 and 2007) productivity was 89,000 euros in foreign investment companies and 53,000 euro in the local (according to WIFO calculations based on Eurostat data on companies controlled by foreign investors).

As a result, the contribution in percentage points of FDI to average annual productivity growth was, for the EU15 (existing EU member countries before 2004), in 1999-2007, of 2.2 p.p. for foreign investment firms, and 1.8 p.p. for domestic companies (total 4.0 p.p.), and for the EU12, in 2003-2007, of 6.5 p.p. in foreign investment firms and 3.7 p.p. in the case of domestic ones (10.2 p.p. total); in other words, the contribution of foreign investment firms to productivity growth was, for the periods indicated, 54% in EU15 and 62% in the EU12. Figures show consistent effects of FDI on productivity growth in the countries integrated in the European Union in 2004 and after as compared to older member states, a reflection of the much broader field of growth of this indicator that presents the first group of countries.

Regarding the use of labour, foreign investment firms demonstrate a significantly higher potential for creating jobs and maintaining a large number of employees. In the same reference year 2008, in the manufacturing industry the share of foreign investment firms in labour utilization was, in the EU15, of 19%, and in the EU12, of 30% (total 21%).

In sectors of the manufacturing industry contribution of foreign investment firms to labour utilization varies widely, higher values recording in sectors targeted by foreign investors, such as pharmaceutical, chemical, electrical and optical equipment industries, transport equipment; unlike the EU15, in the EU12 traditional sectors (wood and wood products, textiles, garments, leather and footwear) are foreign investment-intensive, which means that in these sectors contribution of foreign investment firms in the use of labour is high. Among the former socialist countries, the Czech Republic, Slovakia, Poland and Hungary, which proved to be most attractive to foreign investment, also had the highest rates of contribution from foreign investment companies in labour utilization, by even 50% of total workforce.

In all analysed countries figures highlight the higher contribution of foreign investment firms to use labour in non-financial and business services compared to the manufacturing industry, a reflection of higher attractiveness of services for foreign investment.

Detailed on some services, which proved to be very attractive for FDI, their contribution to labour utilization had the weights specified in the following figure.

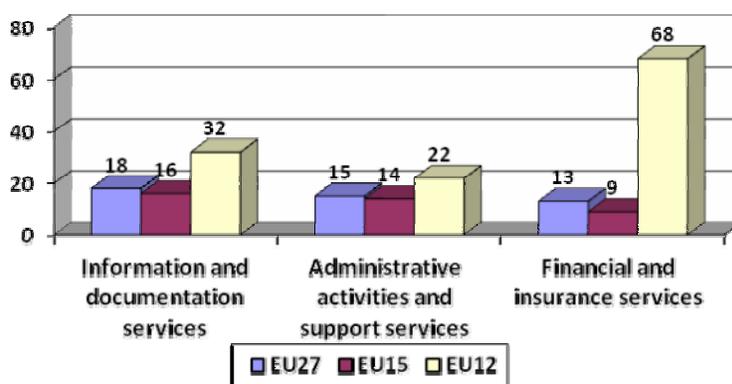
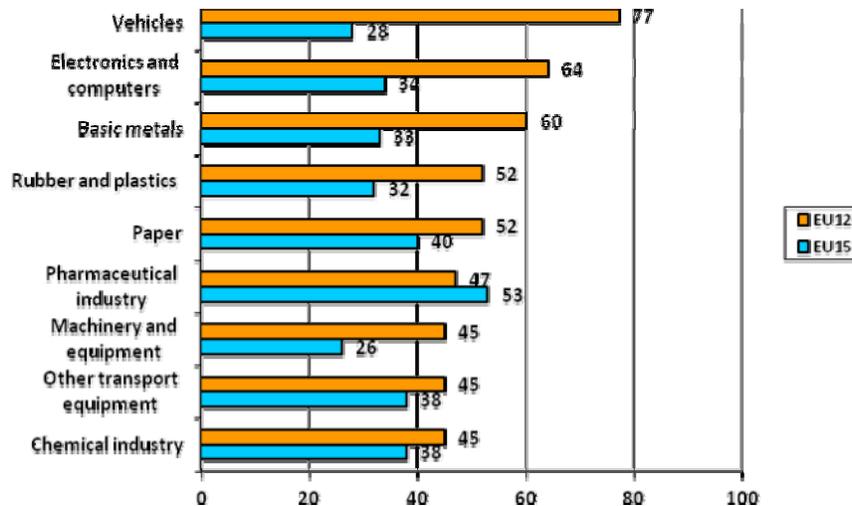


Fig. 2. FDI contribution to labour utilization in different activities, 2008 (%)

These figures show also much wider influences of foreign investment companies in countries that joined the EU in 2004 and 2007 as compared with those existent before 2004.

Value added share of foreign investment firms was also appreciable in manufacturing, again with significant difference between the two groups of countries: EU15 - 28%, EU12 - 42%, with large variations between industries, shown by the figures in the following figure.



**Fig. 3.** FDI contribution to value added growth, by manufacturing sectors, 2008 (%)

Source: WIFO results of the calculations based on Eurostat data on companies controlled by foreign capital

The most attractive economic activities, defined according to NACE Classification Rev. 2, in the EU15 countries, were, in descending order, by the magnitude of their effects on value added, pharmaceuticals, chemicals and paper, other transportation equipment, electronics and computers, basic metals, rubber and plastics, vehicles, machinery and equipment; in the EU12 countries, through the same influence, the order is profoundly changed: vehicles, electronics and computers, basic metals, paper, rubber and plastics, pharmaceuticals, machinery and equipment, other transportation equipment, chemical industry. The two hierarchies that appreciably differ place on different positions technology-intensive (electronics and computers, pharmaceuticals) and capital-intensive activities (basic metals, vehicles, other transport equipment), which demonstrates the essential role of the determinants factors of foreign investors decisions on choice of country and activities in which to place their capital.

Totalized effect of FDI influences on productivity, labour utilization and added value in each productive activity translates into economic growth. In this regard, the cited document reveals, according to estimates done using the OLS (ordinary least squares) regression of growth type Barro, that, overall, the effect of increasing by one percent the ratio FDI influx / GDP materializes in a growth by 1.2 p.p. in the EU15, and by 1.5 p.p. in the EU12 countries. For the second group of countries, the quoted document specifies that 2% increase of FDI inward during the period between the second half of the 1990s and the second half of the 2000s has secured 30% of the GDP / capita increase (estimation justified for the countries with the highest GDP / capita).

Indirect effects of FDI inflows on productivity, competitiveness and economic growth of host countries is manifested by the diffusion of technologies and knowledge (managerial, marketing, organizational, financial, environmental, etc.). Technology transfer can be achieved in multiple ways - through licensing, marketing products incorporating new technologies, creation of joint ventures (which is a non-equity cooperation between companies) and FDI inflow. When the investor (CMN) creates a subsidiary (foreign investment company), there is a direct transfer of technology with internal effects; in turn, foreign investment firm is beginning to realize technology transfer upstream (for domestic suppliers) and downstream (towards customers domestic) and horizontally to other domestic companies in the same industry, producing such external effects in the host economy.

Dissemination of knowledge from MNCs to local firms in the host country can be achieved also in several ways (Blomström and Kokko, 1998; Kokko, 1992): through imitation or

demonstration effects (local companies that copy products, technologies, and management and marketing practices, etc.); through foreign links (local firms imitating the export and foreign markets penetration practices of the investing companies, using their connections); by the mobility of labour (employees of foreign investment company can go to other competitors, achieving a transfer of knowledge and skills to them); by intensifying market competition (which compels domestic companies to increase innovation efforts, to acquire best practices, etc.).

The intensity of the diffusion of technology and knowledge and the magnitude of its effects in the host country of FDI inflow depends, to a decisive extent, on the ability of local firms to assimilate technologies and new knowledge and to apply them effectively in their own activities and market actions, capacity conditioned, in its turn, by the overall level of development of the host country. In this respect, empirical research clearly showed that between the level of host country development and its capacity to absorb technology and knowledge, namely absorption effects, there is a relationship of direct proportionality.

Empirical findings highlight many relevant issues:

- In EU12 countries the differences in average level of productivity between domestic firms and foreign investment ones are higher compared with the situation in EU15 countries;
- In EU12 countries the average growth rate of labour utilization in domestic companies located upstream from foreign investment firms (that is suppliers of the latter) is significantly higher compared to the situation of firms without such links;
- Backward linkages of foreign investment companies amplifies their influence on domestic firms with higher innovation potential (in the case of local firms with over 25 employees);
- Influence of foreign investment companies on the local firms with innovative potential manifests itself in all forms of innovation (technological, managerial, organizational, marketing), but especially in product innovation;
- The probability of becoming suppliers of products and services to MNCs is significantly higher for local innovative companies (which is introducing new products) compared with those not innovative;
- Increased size of local firms and the wider range of qualifications they have increase the likelihood that they become suppliers of foreign investment companies;
- Local firms benefiting from licensing technology from MNCs entered the domestic market engage themselves, usually, in product innovation by intensifying their R & D activities (percentage of firms with R & D activities was 40% for those who have purchased license and only 21% for those without licenses (European Commission, 2012, p. 142)).

## **Effects of FDI Exflows from the EU on Origin Countries**

The issues presented emphasize the essential idea that the presence of MNCs in the host countries economy has, generally, beneficial effects, resulting, most often, in more or less accentuated aggregate productivity growth and, hence, aggregate competitiveness. At the same time, foreign investment risk to engender skilled labour migration from origin countries to host countries, thus diminish the innovation potential of the former; this reality was a subject of concern, debate and research in the EU15 countries generated by the two waves of EU enlargement in 2004 and 2007.

FDI exflow effects on the economy of origin country are far from being clarified, depending on a variety of factors related to its economy state, springs to make investment (investor reasons), the condition of the host country. Empirical research on FDI exflow impact felt in countries of origin has led, in most cases, to ambiguous or very different conclusions.

Regarding the labour utilisation, the likelihood that firms engaged in FDI to reduce on domestic labour market their demand for low-skilled labour and grow for highly qualified (to operate

successfully in activities committed abroad) increases, which means more pressure on the national training system to ensure workers with higher qualifications.

Moreover, the reduction in developed countries demand for low-skilled and unskilled labour became, in the last two decades, a major concern emphasized by FDI exflows intensification and increased competition exerted on this area by developing countries.

In terms of technology transfer, research has revealed expansion of investors tendency to transfer abroad facilities in R & D activities, that not meaning, however, that the scientific and innovation potential decreases in the home country, as firms concerned continue to intensely investigate new essential technologies (“core technologies”).

Aggregate productivity in the home country is expected to increase when FDI exflows intensify, due to the fact that the investing firms transferred, usually, abroad, activities with lower levels of value added and keep in the head office activities with high value added. This causes also profitability growth of the firms investing abroad and recording profit rates higher than those made by companies whose business is conducted internally only.

## **Conclusions**

- Global FDI picture is in constant change, changes from one year to another being, sometimes, dramatic. For instance, by 2009, FDI total (inflows and exflows) was of 2393 billion USD, lower with 31.2% compared to previous year, when triggered the global crisis and it was of 3818 billion USD. In 2008-2013, the total volume fluctuated, reaching a peak in 2011, after which it decreased, in 2013 recording a value of 2863 billion USD, lower, therefore, with 25,1% in comparison with 2008 level;
- To these changes in the total world FDI flows should be added significant changes in their structure, respect in which are to be highlighted continuous diminution of developed countries share in favour of the developing countries, the reverse situation from this point of view of developing countries, lower weights both on the side of inflows and exflows of countries in transition (with fluctuations on the side of inflows and growing trends on that of exflows);
- In this overall picture of the global FDI dynamics, the EU's role continues to assert itself as an important one, but in continuous and abrupt decline. Despite the appreciable location advantages it possess, on the one hand, and technological, financial and knowledge potential it has, on the other hand, the whole community has almost halved in 2013 compared to 2008 its attractiveness for FDI, and, respectively, reduced almost three times its force of investment abroad. The explanations for this development are manifold, the most important consisting in significant growth of developing economies potential in terms of FDI, difficulties arising from successive enlargements of the Union, deepening and aggravation of the euro area crisis, economic recession of some southern member countries. In the context of these negative evolution trends, there were some member countries that registered, after 2007, FDI inflows increasing - Finland, Germany, Netherlands, Portugal, Hungary -, which shows that they have kept their advantages of location and even improved them;
- Structure of FDI inflows attracted by EU presents some aspects and significant trends: a high concentration of extra-EU inflows in the area of North America, the share of investors from the United States being considerably higher than that of investors from other countries (about 45%); share of inflows from developed countries continues to be high, but loses ground to those who come from developing countries and countries in transition; FDI extra-EU inflows aim, especially, at chemicals and food industries, while intra-EU inflows aim, in particular, technology-intensive industries;
- Member countries present attractiveness for FDI inflows that vary within very wide limits, given the highly diversified effects of determinant factors action. The most attractive

- countries in terms of annual FDI inflow ratio / GDP proved to be, in 2014, in descending order, Hungary, Netherlands, Portugal, Finland, Bulgaria, Poland. The fact that in this hierarchy are present three former socialist countries demonstrate their ability to show location advantages and exploit them properly;
- On the side of FDI exflows the EU is very active, shares it registered in this regard being higher than the inflows recorded. The countries with the highest abroad investment potential were, in 2013, in descending order, Germany, Netherlands, Sweden, Italy, Spain, Ireland; among them were enrolled countries with known economic difficulties as Italy and Spain, which highlights the reality that the foreign investment strength of an economy is not always closely linked to the condition of the latter. Investment potential abroad of the former socialist countries is modest, the only countries which have achieved, in 2014, notable performances, however low, being Poland (5.2 billion USD) and Hungary (3.4 billion USD). Countries with strong potential for investment abroad have, naturally, the highest levels of the ratio FDI exflows stock/GDP, from this point of view the best performing countries being, in 2013, in descending order, the Netherlands, Sweden, Finland (located above the EU average), the United Kingdom and Austria;
  - The effects of the FDI inflow on host countries were, for the most part, positive, materialized in productivity growth, better utilization of labour and raising the average skill level, improving the value added and, summed up, in economic growth. Exceptions to this rule were presented by economies, sectors and companies that have proven a poor absorption capacity of the technologies and skills brought by the investing firms. Concerning absorption capacity, significant research revealed significant differences on this plan among member countries of the EU15 and the EU12, differences relating primarily to labour market flexibility, maturity of financial markets, the effectiveness of government policies, scientific and innovation potential; the same differences were observed with respect to indirect effects of FDI inflows, manifested, especially, in the speed and effectiveness of technology and knowledge dissemination;
  - Effects of FDI inflows on the countries of origin present an insufficient clarification or divergent aspects, these effects depending, essentially, on abroad investment motivating. For example, the effects on productivity in the home country are neutral in the case of the first two reasons of FDI (search of resources and markets), and positive in the last two (seeking efficiency and strategic assets); effects on the profitability of companies are positive in the four reasons, etc.;
  - In terms of indicators to measure the FDI intensity and impact, Romania presents modest levels, well below the European average, and lower than performances achieved in this respect by all other former socialist countries.

## References

1. Blomström, M. and Kokko, 1998. A. Multinational Corporations and Spillovers, *Journal of Economic Surveys*, 12 (3), pp. 247-277.
2. Bonciu, F., 2011. *Foreign direct investment before and after the global economic crisis*, Universitaria Publishing House, Bucharest.
3. EUROSTAT, *Inward FDI stocks in % of GDP*. [online]. Available at <http://ec.europa.eu/eurostat/web/products-datasets/-/tec00105> [Accessed 26/02/2016]
4. Johnson, A., 2006. *The Effects of FDI Inflows on Host Country Economic Growth*, CESIS Working Paper Series, Royal Institute of Technology, Sweden.
5. Kokko, A., 1992. *Foreign Direct Investment, host country characteristics and spillovers*, Ph.D. Thesis, Stockholm School of Economics, Sweden.
6. Sachwald, F., 2005. *The Impact of EU Enlargement on the Location of Production in Europe*, Les Etudes de l'IFRI 4 (IFRI), Paris, p.56.
7. European Commission, 2012. *European Competitiveness Report 2012. Reaping the benefits of globalization, Enterprise and Industry*. Commission Staff Working Document SWD (2012)299 final.

8. Organisation for Economic Cooperation and Development (1996). *Benchmark Definition of Foreign Direct Investment*, 3rd Edition, Paris.
9. UNCTAD, 2014. *World Investment Report 2014. Investing in the SDGs: An Action Plan*, United Nations, New York and Geneva. Overview. Global Investment Trends, p. XIII.
10. UNCTAD, 2015. *World Investment Report 2015. Reforming International Investment Governance*, United Nations, New York and Geneva.