

THE EVOLUTION OF THE GLOBALIZATION AND ITS IMPACT ON THE INVESTMENT PROCESS

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Abstract:

This paper proposes a complex analysis of the evolution of the globalization concept, phasing of globalization, the pylons of globalization, and also the evolution of the direct foreign investments. The globalization problem it was, it is and it will be an interest subject for the entire society. Thereby, the end of the XX century and the beginning of the XXI century is defined with the acceleration of the globalization process, and the flows of direct foreign investments involved by the transnational corporations constitutes the main forms of manifestation of this complex phenomena.

Key words: globalisation, foreign direct investment, transnational corporations, capitalization, mother-corporation, host country

JEL Classification: F15, F21, G11

1. INTRODUCTION

It is spoken more and more about globalization, the pro and against opinions. But what is actually the globalization? It is a concept, a status fact or a reality? It is a new phenomena generated by the speed which is propagated the new technology and the information, or a naturally continuity of one process which appeared and developed long time ago? These are just few of the questions that we've been asking and that we've trying to find an answer, that being the reason of choosing this subject.

In the economical literature had advanced the idea that once with falling the Berlin Wall in the year 1989 we've walked in the second age of globalization, the first age dates back to the middle of the 19th century and being interrupted by the First Global War. The "break" period between the two ages of the globalization has arrived to the end once with The Cold War. Therefore, the 1989 year represents a new beginning of the globalization, a consciously and irreversible globalization within that the social and economical relations became without distances and borders. I don't know if it is a coincidence or "it was written" that this year to be one with turns for many nations. It is the year when the ex Soviet Union has decomposed, the wall was "eliminated", it is the first year of the democracy from our country, but it is also the year when USA "puts up" its supremacy.

2. THE ANALYSIS OF GLOBALIZATION PROCESS

The analysis of the globalization process is possible through its pylons: the path from the international businesses to the global businesses, transnational corporations, direct foreign investments, capital international flows, financial institutions and the international economical organizations as well as the evolution without example of the technologies and communications.

The big corporations have invaded the planet, and the international financial flows makes that the global economy can't be barred inside the borders of one state. The free flux of information has lead to the amelioration of the communications and to the decreases of the transport costs, such as the globalization offers to the communities and to the persons from the further areas, also to the developed ones, and also to the less developed ones, various opportunities and options.

Compared to the previous periods, the contemporaneous stage of the businesses globalization is much more intensive and deep thanks to the growth of international investments flows, to the growing number of the transnational corporations, the market liberalization and to the technological progress. Another characteristic of the contemporary business globalization is the acceleration of the international competition. The development and the evolution of the infrastructures of global communications, which is realized in real time, has allowed the fundamental transforming of the firm capacities to organize its activities on the global level, to adapt its organization forms and the production level to the competitive conditions that are always changing and accentuating, but also to increase its speed with whom the goods and services are moving in the background of the production and distribution networks. From this perspective, the production and transnational businesses gained a big diversity of organizational forms, and the production abroad has become very important for the corporations. Therefore, the evolution of the global economy from the international businesses to the global businesses was possible thanks to the international investment flows, and also to the growing role of the transnational corporations. The pregnant role of the transnational corporations and to the direct foreign investments, especially, has lead to the acceptance of the idea that these two entities represent the pylons of the globalization.

The capital, with all its forms, is probably the economical resource with the biggest amount of mobility in the economical context of the new millennium. The capital flows are today common presences also on the international circuits and also on the national tracks, inter-sector and intra-sector. Not only the volume of the capital flows and the speed of their movement are in a permanent ascendancy, but also the easiness which these are transformed (direct investments, portfolio investments, banking and un-banking credits, loans), according to the characteristics of the host-country environment and to the interest and profile of the holder.

The main international institutions responsible for the globalization process, which, in the same time, are the essential pylons of this ample process, are the International Monetary Fund, Global Bank and the Global Organization of Commerce. Of course, there are also other international institutions that play an important role in the economical international system, like the ONU, UNCTAD, BERD, BEI etc.

The evolutions recorded on the technological development scheme, in the informatics sphere and in the lately telecommunications have contributed, within a real "information revolution" that which have switched out, in a crushing manner, to the globalization of the international economical life. Within its nature, the new technologies from the communication sphere have a global dimension, because they don't admit and don't respect the national borders.

3. THE DIRECT FOREIGN INVESTMENTS FLOW IN THE GLOBALIZATION PERIOD

In this work I've weight on the evolution of one of the globalization pylons, namely the direct foreign investments flows. In the most general approach, the investments are constituted in resources allocations, realized in present, for obtaining in the future some utile effects, on a period of time as bigger as possible. It is important to establish from the beginning that, any investment involves the concrete existence of the resources (material, financial, human and logistic), the efficient utilization of these, so of the efficiency concept, the materialization of the resources in results and their exploitation attending to the influence of the time factor and, also the risk factor.

With this work I've pointed to do an analysis of the direct foreign investments in the context of the new globalization context and to identify the effects of this process on the Romanian economy.

Starting from the definitions of some foreign and Romanian authors of the globalization concept, I've analyzed the concept of direct foreign investments in terms of the new evolution recorded on the global, regional and national level. Considering the distribution of the FDI flows on the Central and East European level, and also the attractiveness of the foreign investors owing to the new characteristics of the states from this area, we've realized a detailed comparative analysis of the effects generated by the foreign capital in this region, following the prominence of the impact on the economic environment, social and natural, from the perspective of the durable development. Therefore, I've tried to approach in an own manner the analysis of the impact of FDI flows on the economy of our country, also from the point of view of the adhesion criteria to the European Union, and also under the impact of the globalization process.

Started from the assumption that the appearance of the international businesses constitutes an essential component of the economical activity of the global level and I've relieved the way to the global businesses. A lot of direct foreign investments are the result of the activity of the transnational corporations and other are understood as being companies which operates to different levels of the firm internationalizing.

According to the fact that in the contemporary economy the direct foreign investments have become a significant component of the global economical circuit, and in the last two decades of the XX century have represented a source in continuous ascension for the developing countries, in the World Rapport of Investments, elaborated by UNCTAD in 2002, is accentuated the fact that the direct foreign investments constitutes the biggest component of the capital flows to the developing countries, recording oscillations less than the portfolio investments and commercial-banking loans. To relieve the importance of FDI in the global contemporary economy, I've analyzed the global flows of direct foreign investments from the perspective of the volume, of the influence factors, of the economical development, according to the geographical distribution and sector distribution, and also in the relation with the internationality modalities and with their component elements.

I've started from the premise that drawing foreign capital under the direct foreign investments shape is a specific activity, well defined on the international level, initiated and perfected in the developed countries, that aren't only the main global investors, but also the mains receivers of the direct foreign investments flows. In these conditions, the success in drawing direct foreign investments supposes the alignment to the international practices in the domain, considering the participation in competition conditions to the global offer of investment projects.

The strategically objectives to draw the foreign direct investments aims for building an real external credibility of our countries as potential investment market, and also the promotion of the Romania as potential foreign investor, in the context of the competition with countries with developing economy from Central and East Europe. In these conditions, the politics for drawing foreign direct investments must be actively sustained, generating investments, and the business initiative must start nut only by offering opportunities of internal investments but also by supporting and keeping a stabile and profit generator business climate.

The analysis of the macroeconomic indicators relieves the important transforming that have been produced on economical and social level but also the delays recorded in promoting the market mechanisms, in preparing the premises for assuring a durable development of the Romanian society.

It is known that the flows of foreign direct investment attracted by a country or region is influenced by local conditions and situation of economic, social and international policy. Thus, FDI flows received worldwide have registered an ascendant trend in the period 1998-2000, but were fallowed by a significant reduction in the period 2001-2003 based on the slowing pace of economic growth worldwide, the trend was changed since 2004, when it recorded anew trend of increasing international investment flows. In 2008 shows a inflexible point and this decrease in the volume of FDI flows is a consequence of the current economic and global financial crises.

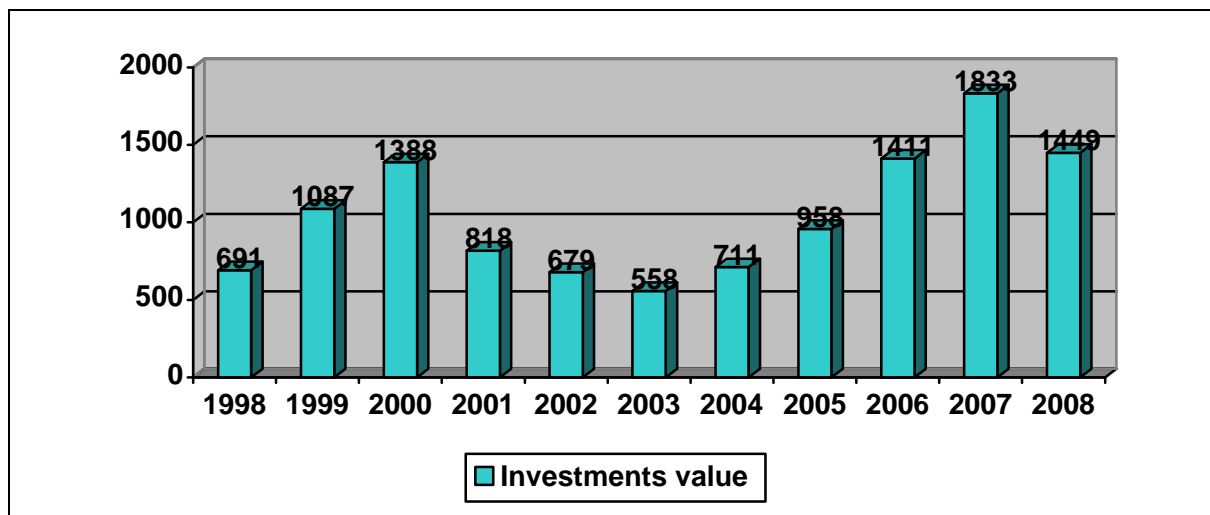


Figure no. 1 – Annual FDI flows received worldwide in the period 1998-2008 (\$ billion)

Source : World Investments Report, UNCTAD, 2001 -2008

Comparative analyses of global trends show that the developed countries, developing countries and economies in Central and Eastern Europe have seen a different dynamic depending on the economic situation and domestic politics and the share held in total world. Thus, developed countries which hold the largest share in total flows of foreign capital have seen an evolution similar to that of the world while the states of Central and Eastern Europe (CEE) have followed a trend different from that.

Year 2000 was an important moment of development, as flows of foreign direct investment reached a record level, registering an increase of 18%, increase was almost entirely absorbed by developed countries, respectively Triad USA - Japan - EU had 80% share of total foreign direct investment received (Table no. 1). Therefore, international production was heavily concentrated in the triad, while flows received by CEE were maintained at the level recorded in the previous period.

Table no. 1 – FDI flows received worldwide in 2000 (\$ billion)

Year	2000	
Total off	1.388	100%
Developed countries	1.108	80%
Developing countries	252	18%
Central and Eastern Europe	28	2%

Source: World Investments Report, UNCTAD, 2002

In the period 2001-2003 FDI flows recorded a significant decrease as a result of decreased growth recorded in 2001, but due the terrorist attacks in America. Thus, flows of foreign direct investment received in 2001 fell significantly which was intensified competitive pressures, stressing the need to seek out locations where costs were lower. We appreciate that this is the main cause that has generated an increase in the relative size of FDI flows received by economies of Central and Eastern Europe countries to 2% in 2000 to 5% in 2003, although in developing countries which has been increased from 18% in 2000 to 31% in 2003.

At the end of 2002, flows of foreign direct investment followed the same downward trend started in 2001 reaching \$ 679 billion. This year, China recorded a record level of capital flows

received (\$ 53 billion), becoming the largest recipient of FDI. As regards the countries of Central and Eastern Europe they recorded an absolute growth of \$ 4 billion to offset divergent evolution in the sense that there were higher flows in 10 countries, mainly in the case of the nominee's integration into EU, while the other 9 countries, including Bulgaria, have received lower flows of foreign direct investment. In Romania, the level of FDI attracted a slight increase (with 0,6%) over the previous year.

Entries of foreign direct investment fell further in 2003, for the third consecutive year reaching the lowest level recorded since 1998. The most drastic decrease in inputs of capital registered in the US (53%) which totaled only \$ 30 billion, being the lowest in the last 12 years. Compared with developing countries that have recorded a rising trend of FDI flows attracted with 9% (from \$ 158\$ billion to \$ 172 billion), the CEE countries have experienced a decline in their from 31 billion to \$ 21 billion (with 7%), which led to a reduction in total global share from 5% to 3 % (1) (Table no. 2).

Table no. 2 – FDI flows received worldwide during 2001-2003 (\$ billion)

Years	2001		2002		2003	
Total off	818	100%	679	100%	558	100%
Developed countries	571	69%	490	72%	365	66%
Developing countries	220	27%	158	23%	172	31%
Central and Eastern Europe	27	4%	31	5%	21	3%

Source : World Investments Report, UNCTAD, 2004

Following the analyses of investment flows towards Central and Eastern Europe in 2003, notes the most part of the inputs of foreign capital registered in the candidate countries to EU integration. Thus, the most significant flows were reported in Poland, which has posted the highest volume of entries of foreign capital (\$ 4.6 billion) followed by Hungary and Romania (\$ 2.2 billion) and Czech Republic and Bulgaria have recorded entries worth \$ 2.1 billion.

Since 2004 is an amendment of the favorable trend of FDI flows received, resulted in increased to \$ 711 billion. After three years of decline recorded a slight return of FDI flows received worldwide, particular in developed countries. the main receiver is the U. S. state, followed by Britain and China, and this increase is made in particular on enhancing the mergers and acquisitions operations.

Must point out that 2004 brought a change in integration of national economies classification on categories in statistical development achieved by UNCTAD. Thus, European countries that acceded to the EU in 2004 are included in the developed economies, while European countries were not members of European Union appear in the category of developing economies along with most countries in Asia, America and South Africa. As a result was defined a new region, namely South East Europe (SEE) and Community of Independent States (CIS).

New polarization of the world economies was reflected on the flows of foreign capitals. Thus, the main share in total FDI flows received worldwide (55.7%) was held by developed economies, represented by 35 countries (EU -25, USA, Japan, Canada, Switzerland, Gibraltar, Iceland, Norway, Israel, Australia an New Zealand), while the majority states of the world, placed in a group of economies in developing, recording only 38.68 % of total global FDI flows.

Although, FDI flows received by South Eastern Europe and CIS has been a trend upward, only three villages received FDI flows higher than in 2003. Thus, foreign direct investment was concentrated in five states that have totaled 81% from foreign capital inflows: Azerbaijan, Bulgaria, Kazakhstan, Romania and Russian Federation. As regards the countries of South–Eastern Europe

which drew 1.87% of global FDI flows as the main receiver is remarkable Romania (\$ 6517 million) and Bulgaria (\$ 3443 million) candidate states for EU integration at that time.

Year 2005 is characterized by continuing upward trends of FDI flows received worldwide (\$ 958 billion, compared with \$ 711 billion in 2004) which brings a favorable change to the developed economies, whose share in total input flows of foreign capital increased by about 4 % (Table no. 3).

Evolution flows of foreign direct investment in 2006 was influenced by events that took place on the political and economic plan on intern and international level, but also the confidence of foreign partners in the development strategy of Romania. Improving the business environment, the effects of introduction of flat tax, have helped to attract a large volume of foreign investment.

Table no. 3 – FDI inflow during 2004-2006 (\$ billion)

Region	Year	2004		2005		2006	
		mld.\$	%	mld.\$	%	mld.\$	%
Total off:		711	100	916	100	1.411	100
Developed countries:		396	55,7	542	59,17	941	66,69
Developing countries:		275	38,68	334	36,47	413	29,27
South and Eastern Europe and CSI		39,6	5,57%	39,7	4,34	57,17	13,84

Source: World Investments Report, UNCTAD, 2007

It is a note that the reorientation of transnational companies' activities in the countries of Central and Eastern Europe aimed, primarily, the nominee's states to integration which has generated for the period 2001-2003 a significant increase in the input of foreign capital in the integrated states in 2004. The same upward trend was noted, during that period and in Romania and Bulgaria which were the main receivers of foreign direct investment in CEE.

Therefore, joining the European Union was an essential incentive for foreign investors interested in gaining a better position on regional market, generating an increased attraction of the countries of CEE candidate to integration, compared to other countries in the region.

The highest rates of FDI flows is achieved in 2007, with over \$ 1833 billion (Table no. 4) year in which EU is extended by joining Romania and Bulgaria on January 1. Emphasize that this year our country is in UNCTAD analysis as developed country, with a volume of entries of FDI flows worth \$ 9.2 billion and for 2008 to \$ 10.6 billion.

Table no. 4 – FDI inflow in 2007 and 2008 (\$ billion)

Region	Year	2007		2008	
		mld.\$	%	mld.\$	%
Total of :		1.833	100	1.449	100
Developed countries		1.248	68,08	840	57,97
Developing countries, of:		499,7	27,26	518	35,75
South and Eastern Europe and CSI :		85,9	17,19	91,3	17,62

Source: World Investments Report, UNCTAD, 2008

The volume of foreign direct investment attracted by a national economy is measured in terms of two major indicators, namely: the index of performance and potential index. The performance index shows the comparison between FDI inputs in each country, calculated as a share of total world economic power of each country's share that it holds in world GDP. It is preferable that the value of this indicator should be as close to 1, which shows that the countries performance

in attracting FDI is better in the sense that attracts FDI over their economic power, occupying such a high position in the world hierarchy.

The potential index measures the potential of each country to attract FDI. Like the previous index, potential index take the values 0 and 1. According to UNCTAD methodology this index is determined by taking into account certain economic, political and social variables, such as the :the stock of input FDI as a percentage of the total world, GDP at purchasing power parity per capita, growth rate of real GDP, the level of total exports as a percentage of GDP, exports of natural resources as a percentage of the total exports, exports of services as a percentage of the total world, import of parts and accessories from electronic and auto industry as a percentage of total worldwide, energy consumption per capita, researching and developing costs as a percentage of GDP, the number of main telephone lines per 1000 inhabitants, the number of students in higher education as a percentage of total population, country risk. It is desirable that the index of potential to be as close to 1, which shows that the country's potential is larger, occupying a better place in the global hierarchy. According to the data from UNCTAD, between the Central and Eastern Europe Countries are significant gaps both in terms of performance and potential for attracting FDI.

Table no. 5 – The performance index of FDI for the countries of Central and Eastern Europe (global position)

Country	Performance index							
	1995	2000	2002	2003	2004	2005	2006	2007
Bulgaria	96	30	23	14	9	7	3	2
Czech	31	17	13	19	29	31	34	41
Estonia	15	19	22	13	15	6	9	8
Poland	45	49	59	76	61	56	51	60
Romania	82	65	76	60	31	25	21	32
Slovakia	64	43	8	12	21	30	28	49
Slovenia	86	114	60	53	57	95	98	94
Hungary	3	26	28	39	43	52	48	50

Source: *World Investments Report*, UNCTAD, 2000,2006, 2008

Table no. 6 – The performance index of FDI for the countries of Central and Eastern Europe (global position)

Country	Potential index						
	1995	2000	2003	2004	2005	2006	2007
Bulgaria	39	66	62	63	64	60	59
Czech	38	38	38	38	39	39	39
Estonia	67	37	34	34	34	35	34
Poland	56	41	43	42	43	44	43
Romania	83	96	79	78	78	74	69
Slovakia	47	47	45	47	47	54	53
Slovenia	42	29	27	28	29	33	33
hungary	54	42	36	37	37	89	89

Source: *World Investments Report*, UNCTAD, 2000,2006, 2008

From the analysis of performance index is observed that the changes in the performance of states and the gap between them are significant. Regarding the evolution of performance index is an apparent reversal of the situation. Thus, in the year 1995 Hungary, Estonia and the Czech Republic attracts a large volume of FDI, While Romania, Bulgaria and Slovenia receive the share of foreign

capital under the power of GDP world. In 2005, Estonia ranks first place at the regional level, while Bulgaria and Romania occupying two sets in the hierarchy of CEE states analyzed attracting FDI over their economic power, while Hungary and Czech Republic recording foreign direct investment appropriately the weighting that hold in world GDP. Slovenia is notable, in that throughout the period analyzed, attracted foreign investment under its economic power. A similar event is recorded in Poland.

4. CONCLUSION

In conclusion, this analysis highlights and completes the observations on the attractive states of the UE for foreign investors. Thus, the most attractive countries were the Czech Republic, Estonia and Slovenia which had great potential and have attracted the most part of foreign direct investment over their economic power. Latest positions were occupied by Romania and Bulgaria, countries that were characterized by a low potential and appropriate attractiveness of their economic power.

Should be note that our country had made an improvement on the potential of attracting FDI flows, so that from 2000 to 2007, climbing 27 positions compared with Bulgaria, which only goes up 7 positions. This situation is explained if we consider the positive developments of the economic, institutional and legal climate, registered in Romania in the European Union pre-accession.

If we analyzed the evolution of FDI presented in accordance with theories on the types of foreign direct investments, we appreciate that foreign investors in UE have watched especially:

- potential market capitalization as a result of foreign investors preference for trade activities ;
- abundant and cheap labor, investors are attracted by industrial activities that do not require highly skilled labor ;
- Exploitation of natural resources in countries that have such resources.

Following the evolution process of globalization in recent decades have been recorded significant changes in the global economy and the most eloquent change consists of increasing the share of services to the detriment of other sectors. This change is due, mostly unprecedented progress in technology, particularly in communications technology, with the main source transnational corporation (CTN). CTN exported this trend throughout the global economy, so in the countries of Central and Eastern Europe through foreign direct investment made in this region.

Romania crosses in this period an important stage from its modern history. On one hand, the adhesion on 1 January 2007 to the European Union had requested the accommodation to the exactingness which supposes the new statute of state member, and on the other hand must protect the internal market of the noxious effects of the contact with free European market. Furthermore, our country will have to find viable solutions that for the national economy to face successfully another international process, much more deeply, the globalization.

The financial global integration and the international mobility of the capitals have modified deeply the existing relations between different economies. Aforetime, the international transmitting of the economical conjunctions was realizing through the flows of goods and services changes. Today, the financial variables are those whom play the determinant role in transmitting the conjunctions, these becoming more and more independent.

ENDNOTES

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