



A STUDY ON GLOBAL FOREIGN DIRECT INVESTMENT TREND AND PATTERN

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ABSTRACT

Foreign Direct Investment (FDI) has increased dramatically during the previous four decades. Increased FDI flows reflect the rising internationalization and integration of economic activity throughout the world. Simultaneously, with the progressive shift in the reasons for FDI, as well as the movement of some location-specific benefits from developed to developing nations, the patterns and trends of FDI have undergone substantial change in recent years. TNCs' motivations have shifted from more traditional resource or market searching to efficiency or strategic asset seeking. The comparative cost issue has emerged as the primary motivator for foreign production. Significant changes may also be seen in the forms and sectorial distribution of overseas investments. The goal of this study is to track the trajectory of recent FDI flows from a global and regional viewpoint, as well as to investigate the causes for the prevailing trend and patterns.

Key words: Foreign Direct Investment, FDI, FDI flows, Trend of FDI.

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1. INTRODUCTION

FDI (Foreign Direct Investment) is a form of long-term investment by an individual or organization from one country to another by setting up factories and business establishments. The aim is to achieve long-term interests and take control of this property. FDI activities have become very popular nowadays. The essence of this activity is the same, but there are many different interpretations depending on the aspects considered. The International Monetary Fund (IMF) defines FDI as an investment made with the aim of obtaining a long-term benefit in an enterprise operating within the territory of an economy other than the host country.

Today, the internationalization of business is moving trading to elements of production. Sourcing, manufacturing, and get together external the host country in the form of foreign direct investment (FDI) is extremely normal. This internationalization process is ever-expanding and seemingly without limits. FDI is of great importance, therefore it has received a lot of attention recently. At the same moment, the world has been making remarkable changes in the pattern and trend of FDI inflows. The motives of TNCs have changed a lot. It moves from a more conventional market or resource search to a performance search or strategic asset search. The

host country's production is not connected with the asset base or the size of the m. The main driver of production is still cost.

There are also significant variations in international investment patterns from Greenfield investments to mergers & acquisitions and from majority/total ownership to low or no equity participation share. Accordingly, the dominance of developed countries as sources of FDI and recipients of FDI is slowly eroding in favor of developing countries, especially in East and Southeast Asia. This paper is trying to determine the trajectory of recent FDI inflows from a global and regional outlook, thereby uncovering the reasons behind prevailing trends and patterns. Discussions on this issue mainly revolve around groups of countries based on both economic development status (as per IMF/WB) and geographical location.

The structure of this study is as follows. After section 1 is introduced, in section 2, the background of FDI flows will be introduced. Section 3 is discussing the forms of foreign investment. Highlights on the sectorial trend of FDI flows are presented in section 4 and finally is the conclusion.

2. BACKGROUND OF FDI FLOWS

Global foreign direct investment (FDI) inflows have recovered strongly in 2021, increasing from \$929 billion (2020) to \$1.65 trillion (2021), a 77% increase in the situation. Covid pandemic is still very stressful. Developed economies have a huge increase in foreign direct investment, estimated to reach 777 billion USD in 2021, 3 times higher than 2020. Besides, FDI inflows into the developing economies. Developing economies grew to nearly \$870 billion (30%) in Southeast Asia, recovering approximately pre-pandemic levels in the Caribbean, Latin America and increased in West Asia. Money flows into Africa also increased, increasing at a moderate rate. Total FDI to the region at nearly twice, boosted by a solitary intra-company financing exchange in South Africa at the end of 2021 (UNCTAD, 2022).

Thus, nearly three-quarters of that will be recorded in developed economies of the all-out expansion in worldwide FDI inflows in 2021. The rest are developing economies, especially underdeveloped countries. the most developed (LDCs), had a more unassuming recuperation development.

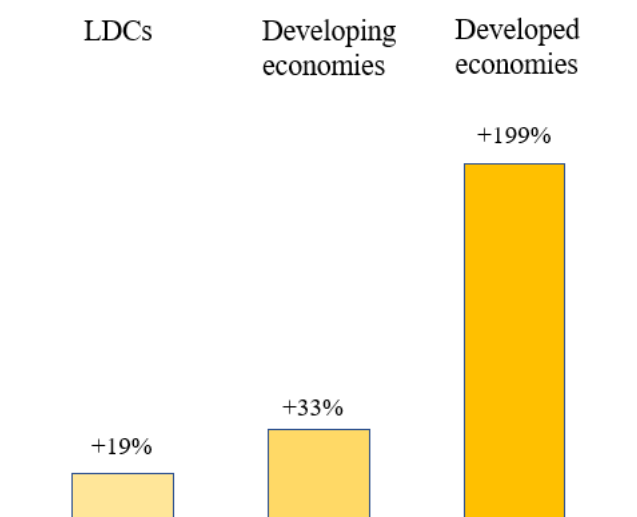


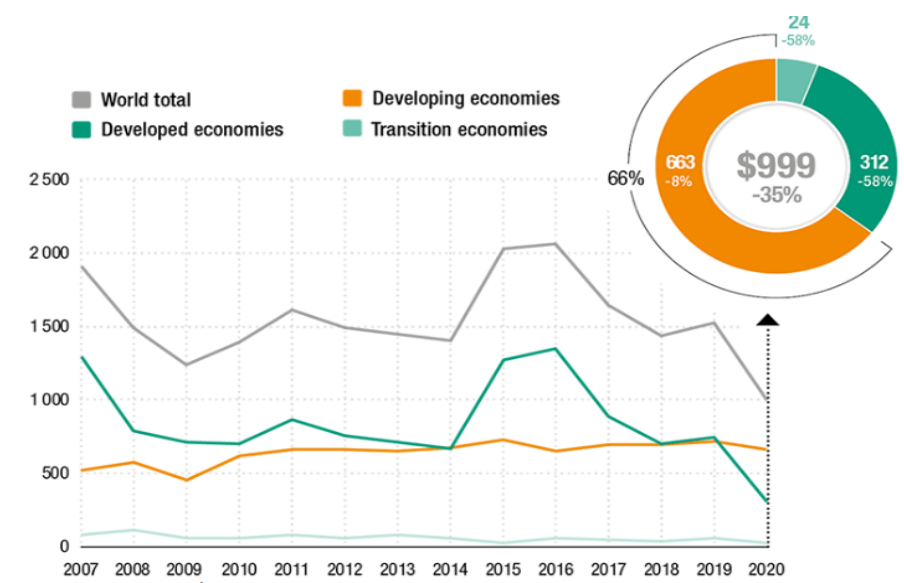
Figure 1. Growth rates for FDI by region (2021 vs. 2020)

3. FORMS OF FOREIGN INVESTMENT

In the past, the most common method of market entry was Greenfield FDI, from the mid-1980s to the present, cross-border mergers, and acquisitions (M&A) activities have increasingly been used as the main means to penetrate the market enter foreign markets. Cross-border M&A has grown rapidly in recent years. Among them, US- and UK-based transnational corporations are the biggest players. Although Japanese TNCs still prefer to invest in Greenfield as an entry method, they have recently turned to mergers and acquisitions. International subcontracting is ever-increasing reality among numerous international enterprises, what they call foreign direct investment without investment since it does not address FDI in the acknowledge sense (Group of Thirty, 1987). In a situation like that, the international company has no ownership in the subcontractor. Nevertheless, if the subcontractor's biggest or only customer, the local company already exists and is kept by the international organizations. As a result, the international organization generates a new business in a different country, thus creating foreign exchange earning jobs for the residence of the subcontractor's country

4. SECTORIAL TREND OF FDI FLOWS

The structure of FDI among industries has changed in favor of the service sector. As time passes, the FDI's share contributed to raw materials (involving mining, metallurgy, oil and gas) has diminished (Daniel and Rodebough, 1998). FDI into in-depth technology manufacturing along with the service sector has expanded since the early 1980s. By 1990, services hold about 50% of the world's total foreign direct investment (FDI), followed by the manufacturing sector and primary industry. The reason for the rise of the service sector as an FDI recipient is the growing internationalization of this sector. For some help businesses, particularly middle of the road inputs in production chains and those available for use, the underlying upgrade for their internationalization was fast development, and the worldwide spread of TNCs in assembling businesses. As produced TNCs have developed all around the world, major banks, advertising organization, lawful firms, land organization, freight corporations, hotel and car rental companies, tourism chains, insurance companies, and credit card businesses. In numerous viewpoints, the internationalization of both manufacturing and service businesses has become commonly supported (Dicken, 1992).



Source: UNCTAD, World Investment Report 2021

Figure 2: FDI inflows, global and by group of economies, 2007–2020, (Billions of dollars and per cent)

FDI into the United States - the biggest host economy – expanded 114% to \$323 billion, while cross-border M&A almost significantly increased in worth to \$285 billion. The FDI flows into the European Union expanded by 8% however streams into the biggest economies are still far below before the pandemic levels. China witness investment inflow of \$179 billion - up 20% - thanks to strong services FDI. The Association of Southeast Asian Nations proceeds to reappear as a development motive for FDI in Asia and worldwide, with capital inflows expanding by 35% and expanding in most members. FDI inflows into India were 26% lower, mostly in light of the fact that enormous M&A deals kept in 2020 were not rehased, capital inflows into Saudi Arabia quadrupled to \$23 billion at the same time, part of the way because of the increment of cross-border M&A. Inflows into South Africa have expanded to \$41 billion owing to a \$46 billion value trade between the South African worldwide Naspers

In 2021, investors have solid trust in the infrastructure sector. Since the sector is upheld by pleasurable long-term financial circumstances, upgrade packages and offshore venture programs. Worldwide project finance trading has developed by 53% in volume and 91% in esteem, with huge expansions in top-level salary locates and in Latin America, Asia and the Caribbean. Interestingly, investor trust in the business and worldwide value chains stays weak. Greenfield's venture declarations were essentially unchanged (-1% in volume, +7% in esteem). The quantity of new activities in Global Value Chain (GVC) industries, for example electronics diminished further. Among other area patterns, green investment stays on normal 30% beneath pre-pandemic levels in the sectors of the industry. Just the communication, information technology sector has completely recuperated. Project finance in infrastructure is currently well above pre-pandemic levels in many sectors. The highest number of activities expanded in renewable energy and industrial real estate. The blast of cross-border mergers and acquisitions (M&As) is most apparent in the service area. The transactions number in the information and communication sector increased over 50% to a fourth of the aggregate.

In 2022, the world still has a positive view of global FDI. International project funding for infrastructure will continue to increase. James Zhan, corporate and investment director at UNCTAD said: "New investing in assembling and GVCs stays low, in part since the world is admist of a wave of political tensions and the COVID-19 pandemic". Besides, new investment takes time. There are many times a slack between the economic recuperation and the recuperation of new investing in supply chains and manufacturing. The pace of vaccination, particularly in developing countries, together with the implementation of measures to stimulate infrastructure investment, remains a factor of uncertainty. In addition, other key dangers, including labor and supply chain congestion, costs of energy and tensions of inflationary, will likewise influence in the results.

5. CONCLUSION

The volume of the two FDI inflows and outflows into the world economy is consistently expanding. Occasionally it becomes quicker than both GDP and world trade. It just so happens that economic activities all over the planet are turning out to be more interconnected through investment networks. As a rule, particularly in the electronics, automotive, petrochemical and construction sectors, arms transactions are being supplanted by cross-border creation of services and goods. According to a regional viewpoint, developed countries overwhelm in the FDI situation. They consumed around 60% of FDI into the world and gave 85% of total outflows. In any case, their dominance is lessening. Then again, the portion of non-industrial nations as FDI beneficiaries is on a rising pattern. Presently, they have retained around 40% of total foreign direct investment (FDI). Among developing nations, East, South and Southeast Asia have turn into the primary objections for FDI. New convictions and perspective towards foreign investing and the adjustment in the business environment, along with the fantastic

execution of domestic enterprises in a lot of emerging nations, are the principal explanations for this growing FDI inflow. However, FDI inflows are yet a phenomenon of developed countries. Its portion is still tiny to developing countries around here. Be that as it may, external FDI from this group, particularly from East, South and Southeast Asian countries is still expanding, but at an exceptionally slow speed. Alongside of ongoing flood of regional integration, FDI in the area has picked up force lately and has turned into an exuberant future of financial capital flows around the globe. A tremendous change has likewise occurred comparable to the types of foreign investing. Conventional Greenfield investing is leaving room for mergers and acquisitions and numerous other low equity and partial types of international investing practices. The sectoral equation of FDI has likewise gone through an extreme change. The service sector has supplanted the strength of the essential and manufacturing sectors as the significant recipients of FDI.

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