FDI FLOWS IN EU COUNTRIES – TRACKING THE PANDEMIC CRISIS

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Abstract: The global economy is trying to recover after the severe crisis caused by the COVID-19 pandemic and the immediate impact on foreign direct investments (FDI) is still serious. In fact, FDI was one of the fields which was dramatically affected by the crisis. Therefore, in 2020, under the pandemic effects, the FDI flows to EU followed the same decreasing trends as the global level FDI.
Considering the importance of the FDI in ensuring a support for economic growth and development through the value chains, the effects of the crisis were felt in various countries and the FDI flows registered different trends.
In this paper, there were analysed the main evolutions registered by the FDI at the European level, taking into consideration the impact of the pandemic crisis. Also, there are compared recent trends of the FDI inflows and outflows in the main EU countries - by capital investment and by investment project numbers – and presented some forecasts regarding the FDI in the next future.

JEL classification: F21, G15

Key words: inflows, outflows, foreign direct investment, EU, evolutions, prospects

1. Introduction

The foreign direct investments (FDI) are an essential element for the material support of economic and social development of each country. Through them there are ensured the increase of fix capital, the increase of the technical productivity of assets and the creation of new jobs.

In this context, the FDI investments represent a base tool for economic development of the economy and moreover, for an intensive, qualitative and efficient development. Also, the investments have a pronounced innovative character because by them are created the material conditions necessary for promoting the technical progress in all activity areas and therefore could be improved the technologies, the productions skills and organization forms, as well as the product renewal.

Considered an active factor for the development and adaptation of the economy to market trends and competitiveness, the foreign direct investment is an element of the country's economic reform and also of the level of regions.

The FDI sector seemed to be voulnerable to the crisis effects. Therefore the pandemic cisis (as the previous one) affected the FDI flows at the global level, with different impacts to the regions (UNCTAD, 2021a).

Despite the fact that Europe is considered a stable environment for the investors (an important supply of skilled labor, consolidated infrastructure, economic and political stability and a large market) the facts revealed some influence factors, concernes and weaknesses (EY, 2021).

On the other side, the crisis represented a signal for launching new challanges for the European institutions in order to reframe the Europe attractiveness. Among these, the key ones are the digital transformation, sustenability and guvernmental support. All of these aspects are going to be analysed in this paper in order to reveal the factors, implications and evolutions of the FDI at the European level and by the main countries.

2. FDI AT THE EUROPEAN LEVEL – RECENT EVOLUTIONS

The pandemic cisis represented a critical cause for an accelerated decline of the FDI at the global level, which registered a decrease of 38 percentage (both projects and capital investment) and, the lowest level since 2005 (Figure 1). In fact, the FDI flows at the global level represented just 1% of global GDP, which is the lowest level since 1999 (OECD, 2021).

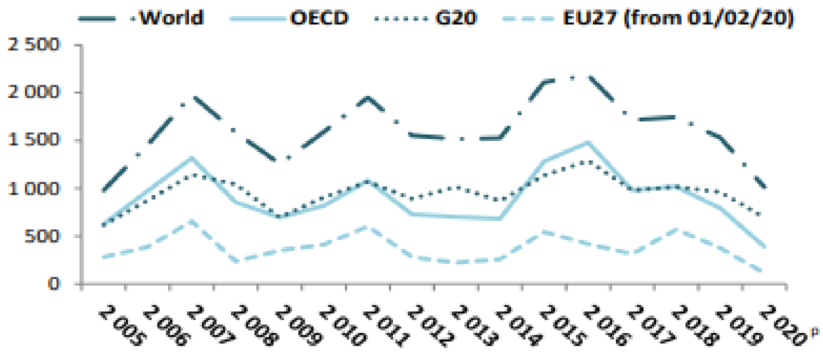

Figure 1: FDI inflows at global level, EU and other areas (USD billion)
Source: OECD, FDI in figures, aprilie 2021

The FDI inflows in European Union followed the same trend as the global ones and decreased in 2020 sharply, mainly because the disinvestment from the Netherlands, Austria, Switzerland and other European countries (OECD, 2021).

Regarding the outflows, at the global level, they registered a high decrease in 2020 caused by the negative FDI flows from the Netherlands and major decrease in Japan and Germany compared with the high levels in 2019 (figure 2).

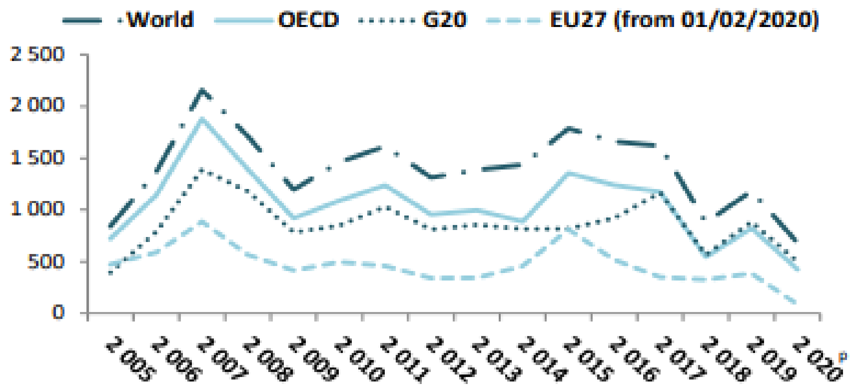

Figure 2: FDI outflows at global level, EU and other areas (USD billion)
Source: OECD, FDI in figures, April 2021

In EU, the FDI outflows registered a sharp decreased (77%), representing 13 percentage of FDI outflows at the global level in 2020, compared to over 30% in the previous year. This is caused also by negative outflows registered by Austria, United Kingdom and Norway (table 1). On the other side, FDI outflows registered high levels in Luxembourg and Sweden (OECD, 2021).

On the period 2015-2020, a comparision between the inflows and outflows in European Union 27 indicate a drop down of both components: the inflows decreased by 77% in 2020 compared with 2019 and the outflows by 70% in 2020 compared with the previous year (figure 3).

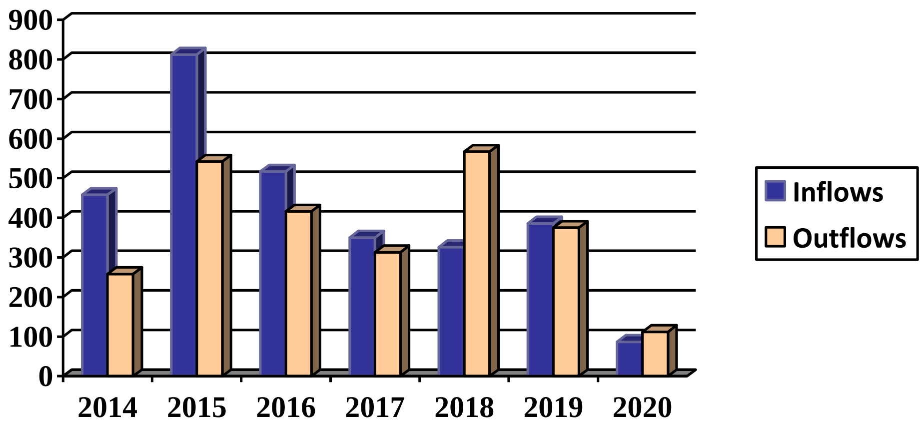

Figure 3: FDI outward and inward FDI flows at the EU (USD billion)
Source: OECD, FDI in figures, April 2021

In 2020, the inflows decreased by 77% in 2020 compared with 2019 and the outflows by 70% in 2020 compared with the previous year. This evolutions should be corelated with the levels registered in the main EU countries.

3. EU FOREIGN DIRECT INVESTMENT FLOWS – COUNTRY ANALYSIS

The evolution of FDI inflows and outflows by countries, reveals the high decrease of both flows in the case of the Netherlands, United Kingdom and Austria while Luxembourg, Sweden, Belgium registered a high increase of both flows in 2020 compared to 2019 (table 1).

Table 1. FDI inflows and outflows in the main EU countries (USD mil.)

Countries	Flows	2014	2015	2016	2017	2018	2019	2020
Austria	Outward	- 665	6 915	- 1 323	10 679	5 680	11 041	- 3 036
	Inward	4 800	1 295	- 8 401	14 926	5 409	846	- 17 250
Belgium	Outward	26 189	57 563	36 337	29 634	39 474	1 581	10 204
	Inward	41 191	- 70 573	59 185	- 706	30 801	2 886	8 418
France	Outward	49 785	53 206	64 785	35 908	105 570	38 663	44 137
	Inward	2 669	45 355	23 055	24 780	38 162	33 964	17 947
Germany	Outward	83 968	99 003	63 599	86 333	86 190	139274	34 870
	Inward	- 3 200	30 534	15 618	48 538	62 034	54 061	35 570
Italy	Outward	26 327	21 640	16 165	24 478	32 797	19 786	10 333
	Inward	23 224	19 631	28 441	23 996	37 659	18 145	- 386
Ireland	Outward	41 182	168 443	30 055	- 2 043	9 613	-16 634	- 49 361
	Inward	48 186	217 820	39 377	52 722	232 723	81 102	33 349
Luxembourg	Outward	41 379	59 766	27 304	10 987	- 7 238	34 471	126798
	Inward	19 778	31 408	81 378	- 23 157	- 76 414	14 791	62 003
Netherlands	Outward	62 419	261 283	190 570	43 484	- 12828	74 869	- 157454
	Inward	53 487	191 560	65 276	40 990	120 238	42 238	- 112057
Spain	Outward	36 743	41 917	43 902	55 926	37 710	19 671	21 373
	Inward	22 571	8 557	31 538	41 877	53 462	8 514	8 908
Sweden	Outward	9 162	13 045	4 703	27 367	17 839	15 553	31 016
	Inward	4 032	8 449	19 153	15 903	4 218	10 115	26 111
United Kingdom	Outward	-151368	- 66 827	- 37 587	142 443	41 415	- 6 080	- 33422
	Inward	24 704	39 189	258 570	96 401	65 285	45 445	19 732

Source: OECD, FDI in figures, April 2021

FDI flows to the Netherlands felt to -$112 billion in 2020, mostly caused by a large equity divestments: large companies from ICT and petrochemicals fields were restructured or liquidated in many countries in 2020.

FDI to the United Kingdom decreased dramatically from $45 billion in 2019 to $20 billion in 2020. The equity investment decreased by 35%, mainly caused by divestments. Also, the drop down of the FDI flows to Italy was caused by the negative equity investments and intracompany loans (from $10 billion to -$1 billion) (UNCTAD, 2021a).

FDI to Austria also decreased in 2020 (to -$17.2 billion), mainly due to negative reinvested earnings and the equity divestment. FDI flows to Ireland felt from $81 billion in 2019 to $33 billion in 2020, mainly due to a decrease of intracompany loans (from $24 billion in 2019 to -$69 billion in 2020).

FDI flows decreased sharply also in Germany, by 34 per cent to $35.5 billion, despite the increase of crossborder mergers and acquisitions. In contrast, FDI to Sweden increased from $10 billion to $26 billion (mostly loans from US for their foreign affiliates). In France, FDI flows declined to $18 billion (by 47 per cent), in part because of lower mergers and acquisitions, which fell from $18 billion to $5 billion.

The outward FDI decreased in most European countries, such as Netherlands, United Kingdom, Germany and Ireland.

Outflows from the Netherlands – one of the largest source for FDI in Europe - decreased from $75 billion to - $157 billion, caused mainly by reconfigurations and liquidations of holding-company. By contrast, outflows from France, increased to 44 billion (by 14%), as French corporations provided loans to their foreign affiliates.

In 2020, the number of investment projects in Europe counted 5102, which represent a decrease by 30% compared to 2019. Considering this indicator, United Kingdom was the main destination country for FDI in Europe, with a total of 868 projects in 2020 (17% from the total) (table 2).

The second destination for FDI in EU was Germany with 733 projects, which represents 14% from total. Also, the capital investment into Germany was $22.9 bn in 2020 (an increase of 2%) compared with 2019 (fDi Intelligence, 2021).

Considering the capital investment, UK, Germany, Netherlands and France count the main share from the total (56%). UK and Germany registers about 38% from the project numbers aut of Europe (table 2).

Table 2. FDI by capital investment and project numbers - 2020

Country	FDI into Europe by capital investment (bn USD)	FDI out of Europe by capital investment (bn USD)	Project numbers into Europe	Project numbers out of Europe
Belgium	4.3	n.a.	191	159
Denmark	n.a.	6.1	n.a.	169
France	12.8	35.3	385	661
Germany	22.9	34.4	733	1015
Italy	6.2	11.1	n.a.	243
Netherlands	5.8	17.7	255	369
Spain	11.7	20.7	448	322
Sweden	n.a.	9.8	n.a.	286
UK	34.4	33.0	868	1085
Others	79.3	43.9	2413	1096
TOTAL	*177,4*	*212*	*5102*	*5405*

Source: The fDi REPORT 2021, Global greenfield investment trend, 2021

The increase of FDI flows to EU developed economies is more likely to be generated more from crossborder mergers and acquisitiond than from new investments. Financial markets due to fiscal and monetary support are likely to stimulate mergers and acquisition activity, which accounts for the largest share of FDI in EU developed countries.

4. CONCLUSIONS

The importance of FDI in the economic development is widely recongnized: ensure the economic development, support the privatisation and restructuring process through the capital investment, generate increase income to the state budget, generate new jobs and could ensure sustenability. All of these benefits represent arguments in order to find aut the strategy to repose the FDI field on the positive path and trend, considering the high impact of the Covid crisis and its consequences.

At the global level, the effects of the Covid crisis were reflected in a severely decrease of the FDI flows. The restrictive measures in order to combat the pandemic had negative consequences for economic activities. The immediate impact on foreign direct investment is the freezing of investment activities in the host economies. A closure of economic activities would discourage new investments, slow down FDI from existing investors and possibly lead to divestments. Thus, the crisis determined the companies to delay the investment projects, to reduce the capital expenditures and profits which conducted to reduced reinvested earnings. Besides, there are several factors which could generate uncertainty for the international investors: new tax reforms, inflation risk, political instability of and increased trade tensions.

The crisis affected the entire world but the impact and effects were registered different from a region to another. In Europe, the flows decreased in 2020 until reached negative levels in some countries, such as: Netherlands, UK, Austria. But there are few other countries (Luxembourg, Sweden, Belgium) which registered even a high increase of FDI in 2020.

FDI represent one of important external financing source for the European economies, has the potential to create new jobs, to offer opportunities for businesses, to revitalize different regions affected by crisis and to ensure the sustainable economic growth. Therefore, it is imperative that Europe should take measures in order to strenghten the perception of an attractive investment destination.

Besides the effects, the pandemic crisis determined some changes regarding the FDI drivers: technology, digitalization, supply chains flexibility, a new focus on sustainability and climate reform gain more importance (EY, 2021). Therefore, during the crisis, investment in some strategic sectors, such as research and development, health field and renewable energy, registered an increase.

Europe is now on a stage of economic recovery and the EU countries have a new instrument for this, the Recovery and Resilience Plan.

In 2021, there is expected an increase of the FDI flows to EU, reflecting improved macroeconomic fundamentals and fiscal stimulus packages. Besides, the infrastructure investment gained from economic recovery packages will increase international project finance and the reinvested earnings are also expected to generate profits return. The increase of FDI flows is probable to come from cross border mergers and acquisitions more than from new investment (UNCTAD, 2021b).

In the new context, the digital transformation, the sustainability and the government support should be the key elements in order to attract the foreign investors for the next future. But COVID-19 is not the only game changer for foreign direct investment. The new industrial revolution, the change of policy towards more economic nationalism trends will all have far-reaching consequences for the configuration of international investments in the future.

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