Dmytro Riznyk, PhD
Ivan Franko National University of Lviv
Lviv, Ukraine

DOI: https://doi.org/10.30525/978-9934-26-356-9-43

FOREIGN DIRECT INVESTMENT TRENDS IN A SHIFTING GLOBAL LANDSCAPE

Foreign direct investment (FDI) plays a key role in macro- and micro-level economic development. FDI is a key component of the country's strategic plan for economic development due to its contribution to economic growth. FDI can contribute to the development of already existing sectors of the national economy and the initiation of new industries within the country. Also, investments have a positive impact on the economic development of the country due to indirect effects.

Foreign investment trends reflect the main socio-economic processes in the world and individual countries in particular, being influenced by the short- and long-term behavioral patterns of critical groups of economic agents. The growth of geopolitical tension and the uneven distribution of the positive effects of globalization contributed to the growth of the trend aimed at directing the focus of economic agents to the domestic market.

The russian-Ukrainian war, trade disruption by Brexit departure [1], US-China trade disputes [2], and other exogenous and endogenous factors cause challenges for the international movement of capital – which leads to a reversal of the global trend of economic integration (such as globalization, the creation of regional trade blocs, implementation of the digital economy) in favor of the processes of economic fragmentation (protectionism, geopolitical conflicts, disintegration of regional associations).

Economic agents are considering moving businesses to more reliable jurisdictions to reduce vulnerability and strengthen their strategic industries. These changes in production and logistics processes are aimed at strengthening the economic security of countries, as well as the formation of competitive advantages for the national economies of these countries, in particular, in terms of guaranteeing stable supplies of scarce resources and production components.

The global pace of FDI has slowed down, and investment projects were under pressure to reduce costs after Q1 of 2022, with a further decreasing trend in 2023 [3; 4]. Among the key influencing factors behind this trend are the russian-Ukrainian war, the growth of food and energy costs, and instability in the banking system. The negative dynamics affected a number of investment directions – in particular, international merger and acquisition

(M&A) agreements and international project financing. These trends are presented in Figure 1.

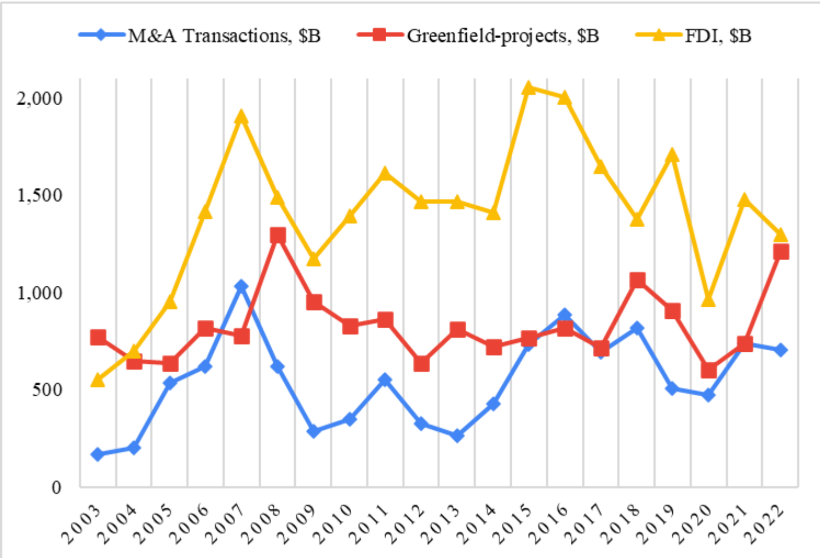

Figure 1. Dynamics of key investment directions in the world, billion USD, 2003–2022

Source: based on the analysis of the IMF [3], UNCTAD [4] data

Deterioration of financing conditions, increase in interest rates, and growth of uncertainty had a particularly negative impact on the international dynamics of investment activity. In particular, the largest M&A market (the US) experienced a more than 50% reduction in cross-border M&A deals, which in general decreased by only 6% worldwide. The volume of M&A deals in the US, which usually make up a large part of FDI inflows, has declined by 53% as of the end of 2022 in developed countries.

The number of announcements about new investment projects (Greenfield Projects) decreased by 15% across most of Europe's largest economies according to the results of 2022. The number of announcements about new projects in China decreased by -31% in 2022; the number of transactions for financing foreign investment projects in Brazil fell by -17% in 2022; the number of M&A deals in ASEAN countries decreased by -74% as of the end of 2022 in developing countries [3; 4].

Foreign direct investment (FDI) plays a vital role in the overall economic development, both at macro and micro levels. It contributes to the expansion of existing industries and the introduction of new sectors. However, due to geopolitical tensions and the impacts of globalization, there has been a shift in global economic integration.

Economic entities are now contemplating relocating their businesses to more stable jurisdictions in order to minimize vulnerability and bolster their strategic sectors. As a result, there has been a slowdown in global FDI activity, with negative trends affecting international mergers and acquisitions as well as project financing.

References:

1. Minford, P., & Zhu, Z. (2023). How the short-run effects of Brexit on trade, investment, and GDP have been miscalculated in some recent work (No. E2023/1). Cardiff University, Cardiff Business School, Economics Section.
2. Itakura, K. (2020). Evaluating the impact of the US-China trade war. *Asian Economic Policy Review*, 15(1), 77–93.
3. IMF Data. Retrieved July 10, 2023. URL: https://www.imf.org/en/Data
4. UNCTAD Investment Statistics and Trends. Retrieved July 10, 2023. URL: https://unctad.org/topic/investment/investment-statistics-and-trends