GLOBAL CHANGES IN THE INTERNATIONAL MOVEMENT OF CAPITAL: THE ROLE OF THE COUNTRIES WITH DEVELOPING MARKETS

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Abstract

The authors analysed cost and geographical features of the process of global FDI. To determine whether principles of expanding diffusion is applicable for studying FDI, authors calculated the proportion of 10, 5, 3 leading countries of the world total in accumulated inward and outward FDI in 1980, 1990 and 2015. Authors ranked countries by FDI's imports and exports shares from the world's FDI performance to analyse the extent of involvement of countries in the process of migration of FDI. Authors found that FDI has been changing in the volume of capital flows, in the structure, and destinations. Recent decades can be marked with spatial shift in attracting FDI: an increasingly prominent position in attracting capital occupied by countries with developing markets. In addition, conducted analysis showed that FDI grow rapidly with an increase in the volatility of migration of capital and this is a long-term threat to the stability of the world and national economies, and therefore, a serious problem in modern global financial system that needs to be addressed.

Key words: foreign direct investments, outflow and inflow of FDI, FDI recipients, source of FDI

JEL Code: F210, F530, F550

Introduction

After the Second World War, the boost in the process of globalization was accompanied by an increase in capital flows between countries. The growing importance of TNCs and their FDI in the 1950s-1960s - FDI from the United States to the EU countries, in particular, - incented many scholars to study international capital movement and the role of TNCs in this process. As a result, in the second half of the 20th century researchers offered a number of ways to reveal specific features of foreign investment processes, their forms and their impact on the country's economy.

The microeconomic theory of S. Hymer also called monopolistic advantage theory was particularly significant, as it became a fundamentally new stage in the study of the process of capital movement. S. Hymer was the first to point out the differences of FDI from other forms of capital movement. According to S. Hymer, FDI investors are motivated not only by high revenue but also by a higher level of control unlike portfolio investments (Hymer, 1976; Sethi & Judge, 2009).

J. Dunning set forward a theory that became essential in understanding the essence of FDI – eclectic paradigm or OLI-model (Dunning, 1988). He provides an exhaustive explanation to the reasons for the companies' investment activities abroad. Companies are interested in making foreign investments if they have direct access to markets, natural resources, cheap labor, all those advantages that can reduce their transportation and communication costs, etc. (Dunning & Lundan, 2008).

Current theories of capital movement are based on monetarist ideas and are mainly connected with financial liberal globalization and the transnationalization of the world economy. In many theories liberalization and transnationalization are the key points in explaining international capital movement and its influence on national and world economy.

Other essential factors can be explained by the theory of Nobel Laureate P. Krugman. The creation of TNCs and their access to international market is explained by Krugman with 2 reasons: the first deals with the decrease in operational expenditures as all manufacturing operations take place within an ingle company. The second reason is the decrease in direct and transport expenses having divided the firm's activities geographically (Krugman, 1991). Obviously, such companies are looking for opportunities to obtain economies of scale that are inaccessible to them within their market. In his theory, P. Krugman is focusing on studying the changes and defining trends in geographical expansions in FDI process because of uneven socio-economic growth of different countries and regions in the world economy most clearly manifested in Asian countries (Sethi & Judge, 2009).

1 Regional FDI trends

The main trends in the global FDI process were both an increase in the volume and the volatility of FDI export and import because of fluctuations in the world economy.

Therefore, the geographic aspect of FDI is of interest

Because of the evolving changes in the global FDI movement the research of the inflow and outflow of FDI in the developed, developing and transitional economies, become more significant (Tab. 2).

Tab. 1: FDI inflow and outflow growth rate in 1995-2015, mln. dollars and %

	Inflow				Outflow			
	1995	2000	2015	Growth rate, %	1995	2000	2015	Growth rate, %
World	341537	1363215	1762155	416	356651	1166144	1474242	313
Developed countries	219772	1125227	962496	338	303965	1073909	1065192	250
Developing countries	117767	232216	764670	549	52069	89042	377938	616
Economies in transision	3999	5772	34988	775	617	3192	31112	4942

Source: estimated based on UNCTAD Statistics Database

The data above show not only the high dynamics in FDI movement but also uneven distribution of FDI among the groups of countries. For the purposes of analysis of FDI inflow and outflow dynamics the calculated growth rate here is used to indicate the intensity of changes in volumes in 2015 compared with 1995. The imported and exported FDI around the world have increased by 416% and 313%, respectively, proving a quantitative change in the FDI movement. Countries with economies in transition show the fastest growth rates in terms of both inflows and outflows of FDI, which are 775% and 4942%, respectively.

Developing countries occupy the second place where FDI inflow grew by 549%, outflow of FDI – by 616%. The grow rate in the developed economy has a positive trend but compared to other groups of countries is relatively low. It should be pointed out that developed countries did not always occupy the leading positions as FDI recipients (for example, developing countries were the main recipients in 2014) but reobtained its position in 2015. It is interesting to note that 2014-2015 are characterized by the growth of global instability both economic (oil prices, economic sanctions against Russian Federation) and political (the war in Syria, political situation in Ukraine). The main consequence of these instabilities was the growth of FDI inflows into Western countries, significant for the economies of the USA, EU and OECD countries in general.

In 1995 the share of countries with developing and transition economies together accounts for less than half (35%) of the total world volume of imported FDI, which confirms the leadership position of developed countries (64%). In 2014 the largest share of the world's FDI with share of 55% belongs to developing countries, followed by developed countries - 41% and countries with economies in transition - with a share of 4% (UNCTAD Statistics Database).

This analysis of the distribution of FDI inflows over the past 19 years confirms the conclusion about a change in the spatial pattern of FDI distribution. Such a change in the geography of FDI inflows is primarily caused by more efficient production and increased return on investment in the region. Therefore, the average rate of profit in developing countries in 2014 is 8.4%, in countries with transitional economies - 13.2%, and in developed countries - 4.8% (UNCTAD, 2014).

However, economies of developing and transitioning countries are attractive for investments only in periods of relative stability of the world economy. As noted above, in times of high global instability, the risks of working in developing and transitioning markets are also high. As a result, the "bursts" represent cases of crisis phenomena, in which capital is fleeing not only to the economy of the donor country, but also to the western ones, albeit less profitable, but stable and not involving nationalization. By the way, identification of donor's country is sometimes difficult, because donors' countries often act through investment funds. For example, in the GCC, it is possible to speak with full confidence only about the donor's region.

In 2015, the greatest growth in FDI flows is observed in the EU and the US after historically the lowest level in 2014. The geographic distribution of FDI in 2015 favored developed countries, accounting for 55% of the global FDI migration volume.

As early as 2014, the leading group in attracting FDI, as noted above, was developing countries that accounted for the majority of imported FDI. In 2015 developing countries in Asia became the main recipient among all developing countries with a total volume of $ 540, 722.3 million. These circumstances dictated the need for a detailed study of the geographical analysis of recipient countries with developing economies (UNCTAD Statistics Database).

The countries of Asia attract a special interest of investors. The highest growth rates of FDI are observed in the countries of West and South-East Asia, but only the countries of South-East Asia retain positive dynamics, excluding the periods of the financial crisis. According to UNCTAD, in 2015, the total volume of FDI inflows to developing countries in Asia was $ 540772 mln, the volume of imported FDI to Southeast Asian countries was $ 125,732 mln. (UNCTAD Statistics Database) so that their share reached 23% of all FDI in developing countries in Asia. This dynamics in the FDI flows is a primary for interest in studying the processes of import and export of ASEAN FDI.

Thus, the study of quantitative and spatial changes in the distribution of FDI confirms the conclusion that non-uniformity in the geography and volume of FDI in the world is growing (Shkvarya, 2012) and leads us to the need to pay attention to the geographic expansion of capital migration, namely increase in number of countries participating in the process FDI flows.

2 Analysis of spatial changes in the distribution of FDI

It is important to note that the geographical expansion of the investment process proceeds in accordance with the expansion diffusion principles formulated by T. Hagerstrand. The essence of these principles is that simultaneously the role of the main centers decreases and the centrifugal tendencies become stronger (Samusenko, 2014).

In order to determine the possibility of using the expansion diffusion principles for FDI studies, we calculated the shares of 10, 5, and 3 leading countries in accumulated imported and exported FDI in 1980, 1990 and 2015 in the world volume (Tab. 4). This will help to establish qualitative and quantitative changes in the role of leading countries in these indicators.

Tab. 2: The share of 3, 5 and 10 leading countries in the investment process in 1980, 1990 and 2015, %

	first 10 countries,%			first 5 countries,%			first 3 countries,%		
	1980	1990	2015	1980	1990	2015	1980	1990	2015
Accumulated imported FDI	78	75	54	59	55	38	46	44	28
Accumulated exported FDI	93	87	64	77	71	42	62	56	37

Source: calculated on the basis of the UNCTAD Statistics Database

The calculations (Tab. 2) show a tendency to reduce the share of leading countries in terms of accumulated imported and exported FDI for the period under study. Thus, the share of the top 10 leading countries in terms of accumulated imported FDI fell from 78% in 1980 to 58% in 2014. The share of the top 10 leading countries in terms of accumulated outgoing FDI fell by 30%. Consequently, the number of other participating countries in the process of FDI (exporting countries and importing countries) is increasing. It is logical to note that the corresponding changes occur with shares of the top 5 and top 3 countries of the leaders in the studied indicators.

Based on the FDI inflows / outflows from 1980 to 2014, the study allowed us to classify countries according to the degree of involvement in the FDI movement process and identify 4 types of countries (the classification was made separately for import and export of FDI), depending on the share of these countries in the export and import of capital. This classification allows us to characterize the qualitative changes in the process of transformation in the FDI movement that took place in the world as investment relations developed in 1980-2015.

The analysis was carried out based on a comparison of the indicator that represents the share of FDI inflows and outflows in total volume of global FDI inflows and outflows in the world, i.e. we estimated the prevalence of the share of one country over another within the framework of the *global investment flows.* 4 groups of countries were identified in term of capital inflows and outflows (Tab. 5.): 1) with the largest share (the share in global capital inflow/outflow is more than 20%); 2) with the high share (the share in global capital inflow/outflow is from 10 to 20%); 3) with the average share (the share in global capital inflow/outflow is from 1% to 10%); 4) with the smallest share (the share in global capital inflow/outflow is up to 1% but not equal to 0).

Tab. 3: Types of the countries in terms of the share in FDI capital inflow, 1980-2015, % of Global FDI

FDI inflow							
1980		1990		2000		2015	
country	%	country	%	country	%	country	%
Group I: countries with the largest share (more than 20)							
USA	31,1	USA	23,6	USA	23	USA	21,6
Group II: countries with the high share (10-20)							
United Kingdom	18,6	United Kingdom	14,8	Germany	15	Hong Kong	10
Canada	10,7						
Group III: countries with the average share (1 – 10)							
France	6,1	France	8,1	United Kingdom	8,9	China	7,7
Netherlands	4,6	Netherlands	5,4	Belgium	6,5	Ireland	5,7
Mexico	3,9	Spain	5,3	Canada	4,9	Netherlands	4,1
Brazil	3,5	Belgium	3,9	Netherlands	4,7	Switzerland	3,9
Australia	3,4	Australia	3,9	Hong Kong	4,003	Singapore	3,7
Belgium	2,8	Canada	3,7	China	2,99	Brazil	3,67
Spain	2,7	Italy	3,1	Spain	2,9	Virgin Islands	2,9
Singapore	2,3	Singapore	2,7	Denmark	2,5	Canada	2,8
Malaysia	1,7	Switzerland	2,7	France	2,02	India	2,5
Hong Kong	1,3	China	1,7	Ireland	1,9	France	2,4
Argentina	1,2	Hong Kong	1,6	Sweden	1,7	Germany	1,8
Greece	1,2	Germany	1,4	Switzerland	1,4	Belgium	1,76
Italy	1,1	Mexico	1,3	Mexico	1,3	Mexico	1,7
Greece	1,01	Malaysia	1,27	Singapore	1,14	Luxembourg	1,4
		Thailand	1,26	Australia	1,04	Australia	1,3
		Portugal	1,15			Italy	1,2
						Chile	1,14
						Caymans	1,08
Group IV: countries with the smallest share (1>x<0)							
112 countries	13%	138 countries	14	166 countries	14	164 countries	20

Source: calculated on the basis of the UNCTAD Statistics Database

According to the data of 1980, 1990, 2000 and 2015, only USA was in the Group I. It means that throughout this period USA was the main recipient country. We further note that its share is gradually decreasing until 2015.

In 1980, there were only two countries in the Group II (UK and Canada); in 1990, 2000 and 2015 there was only one country in each year (UK, Germany, Hong Kong, respectively).

In Group III the number of countries increases over time, increasing at the same time the total share of FDI inflows. It could be explained by the growing interest in these economies due to their progress, stability, efficiency growth and overall strengthening of their positions in the world economy. Therefore, in 2015, the countries of Group III became the most active in the FDI inflow. Their total share (of 18 countries) was 58%, compared with 37% (of 14 countries) in 1980, 48% (of 16 countries) in 1990 and 50% (of 15 countries) in 2000.

The 4th group of countries remains the most numerous. In 1980, it included 122 countries with a total share of 13%, in 1990 - 138 countries with a total share of 14%, in 2000 - 166 countries with a total share of 14%, in 2015 - 164 countries with a total share of 20%. This indicates an increase in investment activity among the less developed countries, an increase in their sustainability and strategic objectives. The average share of the country belonging to the 4th group is 0.1% in each year.

In 1980, two host economies receipt 50% of all FDI inflows: USA (31.1%) and United Kingdom (18.6%). In 2015, the amount of host economies with a total share of 50% of global FDI inflows reached 6 (USA, Hong Kong, China, Ireland, Netherlands, Switzerland). The total amount of FDI inflows host economies, regardless of the group, also increased: at the beginning of the period, 139 countries received FDI inflows, in 1990 their number increased to 156, in 2000 to 183, and in 2014 to 184 countries. The geographical shift in the FDI distribution that we analyzed above is also proved correct, that is related, in our opinion, with the emergence of an increasing amount of developing countries as a part of three main groups of host countries, with the overall strengthening of both investment and global economic processes in countries with emerging markets (Wang, Wen, & Xu, 2016).

A vivid example here is China. It should be noted that in 1980 China belonged to countries with a share of 0.1%. The increase in China's share in the FDI inflow in 2015 compared to 1980 does not only mean that China has become a significant recipient of FDI, but it emphasizes the fundamental changes China has made in attracting foreign FDI and transforming the national economy during the crisis period (L.V. Shkvarya, 2016; Zhang, 2017).

From ASEAN countries, Singapore has traditionally been in the 3rd group, increasing its share in global capital flows from 2.3% in 1980 to 3.7% in 2015. Malaysia was also part of the 3rd group in 1980 and 1990; in 1990 Thailand joined this group with a share of 1.26%.

Considering the positions of donor-countries of FDI in the world economy, we can see that the composition of the four groups of countries varied over the analyzed period (Tab. 6).

Tab. 4: Types of countries in terms of the share in FDI capital outflow, in 1980-2015, % of global FDI outflow

FDI outflow

1980		1990		2000		2015	
country	**%**	**country**	**%**	**country**	**%**	**country**	**%**
Group I: countries with the largest share (more than 20)							
USA	36,9	Japan	20,8	United Kingdom	20,2	USA	20
Group II: countries with the high share (10-20)							
United Kingdom	15,1	France	15,7	France	13,9	-	-
		USA	15,7	USA	12,2	-	-
Group III: countries with the average share (1 - 10)							
Netherlands	9,3	Germany	9,9	Belgium	7,4	Japan	8,7
West Germany	9,02	UK	7,4	Netherlands	6,5	China	8,6
Canada	7,9	Sweden	6,04	Spain	4,99	Netherlands	7,7
France	6,02	Netherlands	5,9	Germany	4,8	Ireland	6,9
Japan	4,6	Italy	3,1	Hong Kong	4,6	Germany	6,4
South Africa	1,44	Switzerland	2,9	Canada	3,83	Virgin Islands	5,2
Italy	1,42	Belgium	2,6	Switzerland	3,8	Switzerland	4,8
Sweden	1,2	Taiwan	2,15	Sweden	3,5	Canada	4,6
		Canada	2,1	Virgin Islands	2,95	Hong Kong	3,7
		Spain	1,1	Japan	2,7	Luxembourg	2,7
		Hong Kong	1,003	Denmark	2,3	Belgium	2,6
				Finland	2,1	Singapore	2,4
						France	2,38
						South Korea	1,9
						Italy	1,87
						Russia	1,8
						Sweden	1,6
						Norway	1,3
						Chile	1,05
						Taiwan	1,002
Group IV: countries with the smallest share (1>x<0)							
106 countries	8	117 countries	7	117 countries	8	119 countries	12

Source: calculated on the basis of the UNCTAD Statistics Database

The main donor-countries (Tab. 4) with the largest share of capital outflow (Group I) were USA (36.9%) in 1980, Japan (20.8%) in 1990, UK (20.2%) in 2000, and again USA (20%) in 2015, trending towards a reduction in the share of the countries of 1st group in the global FDI outflow.

The share of the 2nd group of countries also changed: despite the growth of the share of these countries in 1990 and 2000, there is no country that represents the group in 2015.It means that in 2015, there was no country that had the share of capital outflow of 10 to 20% of the global FDI outflows.

The fastest growing in the total share of capital outflow was the third group of countries. Its composition and total share tend to increase: in 1980 the number of countries reached 8, and their total share was 41%, in 1990, they were 11 countries, and their share was 44%, in 2000 already 12 countries with total share 50 %, and in 2015 there was 20 countries and their total share was 68%. The group included countries such as Singapore, China, Russia, and South Africa, that was a member of this group in the 1980s, and returned back only in 2015.

The most numerous group among the donor countries is the 4th group. The number of countries participating in this group remains stable in 1990-2015, but their share FDI outflow in 2015 increased to 12% of the global indicator. Consequently, the average share of each country in this group was 0.1%.

The number of countries accounting for approximately 50% of all FDI outflow is undergoing minor changes: in 1980 - 2 countries (USA and UK), in 1990 - 3 countries (Japan, France, USA), in 2000 - 4 countries (United Kingdom, France, USA and Belgium), in 2015 - only the USA. Consequently, the leading positions among the FDI donor countries are currently occupied by the developed West countries.

Conclusion

The existing features of capital outflow differ from the characteristics of capital inflows. First, as can be seen from Tab. 6, among the donor countries, the advanced economies are dominant, in contrast to the group of recipient countries of FDI. Secondly, the growth of the scale and volume of FDI outflow is undoubtedly true for the analyzed period, but the number and composition of the participating countries is not as diversified as in FDI inflows.

According to the analysis, FDI is growing at a rapid pace with the simultaneous increase in the volatility of this process, which we see as a long-term threat to global and national economies and, accordingly, a serious problem in the modern world monetary and financial system that needs to be resolved. There are major changes not only in the volume of FDI capital flows, but also in their spatial and scale characteristics. Thus, over the past decades, there has been a spatial shift in attracting FDI: more and more prominent positions in attracting capital are held by states with emerging markets. Therefore, it is important for this group of states, including the ASEAN countries, to build on existing ones and create new competitive advantages for increasing the share and effectiveness of their participation in global FDI flows.

In addition to the reshuffling of FDI, one can note an increasing number of participating countries in the FDI outflows and inflows, which has become a pervasive phenomenon, and the FDI market has become highly competitive. Among the recipient regions, the developing countries of Asia, which actualizes the further research projects on this region and effectiveness of work in this market for foreign researchers, occupy an important place.

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