ABSTRACT

Since the start of foreign direct investment (FDI) studies, scholars asked themselves what drives companies to invest abroad, what incentives are needed to start the flow of FDI to one destination country and how is the flow changing as that countries development is more and more advanced. The academic community launched the hypothesis that the level of development of one country influences the flow of FDI, also known as the investment development path theory. This article is a case study of EU member states as the EU is one of the most advanced forms of cooperation between countries in the world and the flow of FDI has a great impact on its development. The authors follow the evolution of FDI since the year 2000, including the effects of the financial crisis on the flows of FDI, and their post-crisis recovery, and the correlation of the net output investment per capita of FDI with the GDP per capita levels.

Keywords: Development, European Union, Financial Crisis, Foreign Investment

INTRODUCTION: FDI’S DETERMINANTS AND IMPORTANCE

FDI are one of the most complex phenomenons of our days. The dynamics of FDI reveal some changes regarding the determinant factors and the motivations of companies that decide to invest abroad. Transnational companies, the main vehicle of FDI, resort to investing abroad in order to obtain advantages like: the use of cheaper resources such as labor force or raw materials, selling its products in the local market, accessing resources or assets, bypassing the tariff or non-tariff barriers affecting trade. The analysis of FDI has noted that their motivation has shifted from access to natural resources and protection of national markets to the considerations of cost and efficiency as well as access to strategic assets, quality inputs and access to liberalized markets. In fact, this change is the result of motivational determinants that have affected the world economy: trade liberalization, increased competition, the development of information and communication technology etc. (Matei M. 2004)
FDI brings not only advantages for multinational enterprises (MNEs), but also for the economies of host countries. (Iacovoiu V., 2009). The most important contributions of FDI are the focus on capital formation, technology transfer, human capital development, export promotion, privatization and restructuring of state-owned firms, generating inward investment. It should be noted, however, that FDI may have a negative impact on the economy of the host country through: the elimination of competition, generating unemployment, disequilibrium of balance of payments etc.

Since their apparition, researchers tried to unveil the requested conditions and the forming mechanism of FDI. In economic theory, due to the fact that foreign direct investments are closely related to multinational enterprises, they are assimilated as theory of transnational corporations. Unlike international trade, where a prevalent theory (HOS) was formulated, which has as its starting point the theory of Adam Smith, the FDI theories are more complementary. The theorists of FDI are concentrated in two groups: one with origins in Canada with the representatives like Hymer, Gordon Shapiro, Saforian, Caves, Calvet, Fowler, Kierans, Mc Monis and another group in England where we note Cantwell, Dunning, Buckley and Casson.

Calvet, Cantwell and Lizando have made even a systematization of these theories geared towards causes that determine FDI: theory of the firm (monopoly advantage, internalization of production) and theories of macroeconomic development (market imperfections, product life cycle). Along time, many researchers brought important contributions to the investigation process of determining which are the mechanisms and determinants of FDI (Iacovoiu V., 2008).

THE OLI PARADIGM AND IDP THEORY

The main catalysts of FDI flows are multinational enterprises (MNEs). As the main creators of FDI, MNEs always look for the best place to make their investment. Taking in account this fact, many theories were developed over the years, but the most complex of all is the eclectic theory, also named the OLI paradigm (Dunning 1979, 1988, 1993).

The eclectic theory considers that FDI are the result of specific interaction of several theories on international trade, monopoly advantage and internalization of production. According to John Dunning, the theory regarding activity of MNE is on the border “between macroeconomic theory of international trade and microeconomic theory of the firm, is an exercise of macroeconomic allocation of resources and organizational theory.” According to this specialist, certain forms of trade is explained by the specific advantages of exporting firm’s country and others (like knowledge intensive products) are explained by the exporting firm specific advantages. Exports of goods occur when firm-specific advantages are best combined with the advantages of the exporting country rather than with the importing country. Otherwise, FDI are realized. So FDI occur as a result of combining the firm-specific advantages with the host country’s resource endowment advantages.

Achieving international productions is not only the specific advantages of monopoly or the ability to internalize these advantages, but also the existence of a foreign country where you can get unique gains. FDI is, therefore, the result of a firm-specific advantages and benefits of host country. In conclusion, the internationalization of production is achieved when the company has the following advantages: ownership advantages (competitive) that are specific to companies, location-specific advantages of the host country and internalization advantages (OLI from the ownership, location and internalization).

OLI paradigm establishes that MNEs will invest abroad on the moment in which the three composing factors of the paradigm, ownership advantages, localization advantages and internalization advantages, are optimally exploited.

Ownership advantages relates to the advantages that an MNE has and domestic companies don’t, which surpasses the costs and risks of developing and exploiting abroad units, like, owning a superior technology, easier
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