INVESTMENT TRENDS IN THE GLOBAL, EUROPEAN AND ROMANIAN ECONOMIES IN 2022

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ABSTRACT: *Following the series of atypical and impactful years, including the 2020 COVID-19 pandemic, 2022 emerged as another year that shook global politics, sending economic shockwaves worldwide. It is natural for Foreign Direct Investments (FDI), a key globalization vector, to react to these shocks. This article aims to provide a comprehensive overview of the investment sensitivity levels in the global, European, and Romanian economies. It analyzes the macroeconomic impact of the Ukraine war and other external and internal factors on the dynamics of FDI globally, within the EU, and specifically in Romania. Was the context of 2022 inhibiting or encouraging for private investors? The answer is complex and not universally applicable, requiring a thorough analysis of the global economy, continents, and our country.*

Keywords: *Foreign Direct Investment, new FDI projects, sustainable investment, Ukraine war*

JEL Classification: *D25, E22, F21*

1. INTRODUCTION

Undoubtedly, 2022 will be remembered as the year of the beginning of the Russian invasion in Ukraine, a year with profound economic, financial, social, and strategic-military implications globally and especially in Europe. This phenomenon will continue to have economic repercussions in the near future. The international economic environment, already significantly impacted by the COVID-19 pandemic in 2020-2021, continues to operate under risk, uncertainty, prudence, and opportunities due to at least two ongoing wars, in Ukraine and the Middle East. A politically and economically intriguing, if not explosive, situation!

2. GLOBAL FDI TRENDS IN 2022

Global Foreign Direct Investments (FDI) declined by 12% in 2022, reaching $1.3 trillion. This decline was primarily due to lower financial flows and transactions in developed countries. However, real investment trends were more positive, with announcements of new investment projects in most regions and sectors.

FDI in developing countries saw a marginal increase, with growth concentrated in a few large emerging economies. In many smaller developing countries, entries remained stagnant, and FDI in the Least Developed Countries (LDC) decreased.

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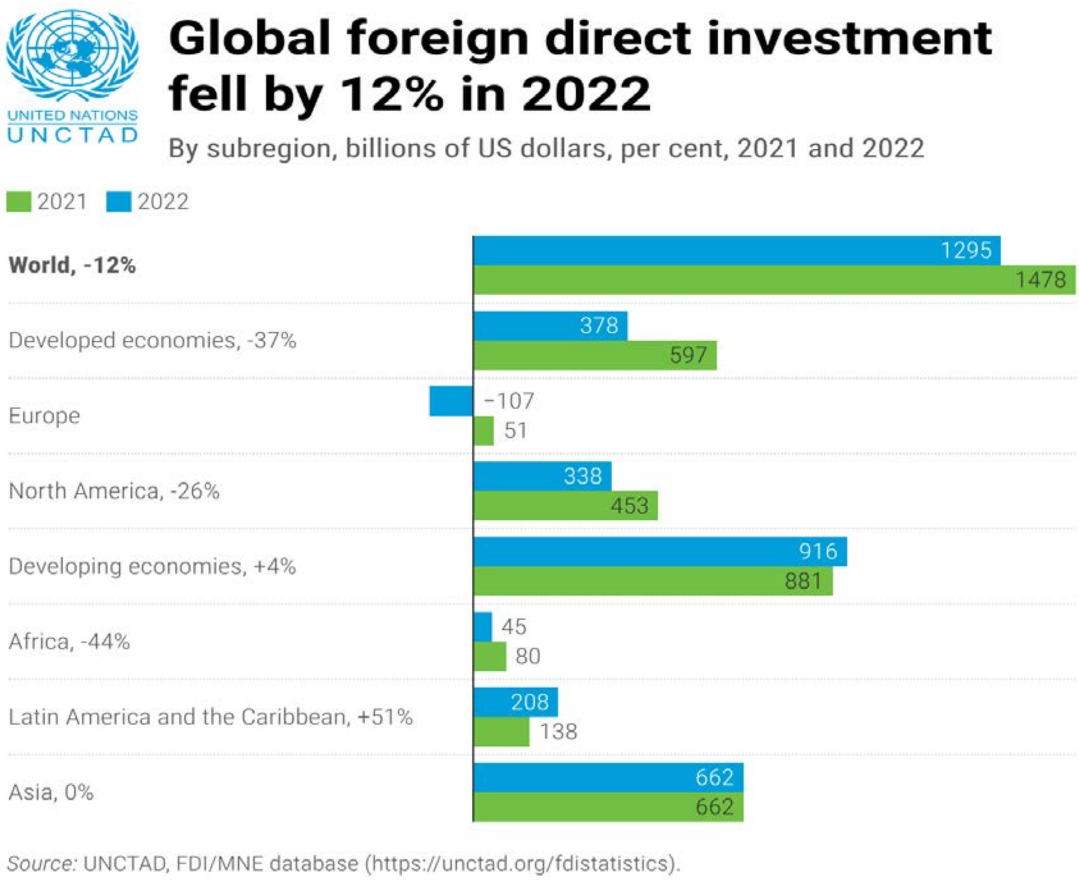
Industrial trends showed an increase in projects in infrastructure and industries facing supply chain restructuring pressures, including the electronics, automotive, and machinery sectors. Three of the five largest investment projects were announced in the semiconductor industry in response to the global chip shortage. Investments in the digital economy sectors slowed down after the growth observed in 2020 and 2021. The number of investment projects in the energy sector remained stable, temporarily alleviating concerns about the declining trend in fossil fuel investments due to the energy crisis.

Factors Impacting FDI in 2022

The slowdown in FDI growth was driven by the global polycrisis: the war in Ukraine, high food and energy prices, and debt pressures. International project financing and cross-border mergers and acquisitions were particularly affected by tighter financing conditions, rising interest rates, and market uncertainties. The global environment for international business and cross-border investments remains challenging in 2023. Although the economic currents shaping investment trends in 2022 have somewhat calmed, they have not disappeared entirely. Geopolitical tensions remain high, and recent disruptions in the financial sector have added uncertainty for investors. UNCTAD predicts that downward pressure on global FDI will continue in 2023. Early indicators for Q1 2023 show weak trends in international project financing and cross-border mergers and acquisitions. However, trends in direct investments in infrastructure appear to counterbalance positively. The number of project announcements increased by 15% in 2022, and data for Q1 2023 also show resilience. Trends in international investments in productive real assets are, therefore, more positive than the basic FDI data suggests.

Regional Highlights

1. **Africa:** FDI returned to 2019 levels at $45 billion after abnormally high levels in 2021, driven by a single financial transaction. Greenfield project announcements increased by 39%, and international project financing transactions rose by 15%. The energy sector, both extractive and energy production, recorded the highest growth.
2. **Asia:** FDI in developing Asia remained stable at $662 billion, still representing over half of global FDI. India and the Association of Southeast Asian Nations (ASEAN) were the most receptive, with 10% and 5% growth, respectively, and a significant increase in project announcements. China, the world's second-largest FDI host country, experienced 5% growth. FDI in the Gulf States declined, but the number of greenfield project announcements increased by two-thirds.
3. **Latin America and the Caribbean:** Flows increased by 51% to reach $208 billion, the highest level ever recorded. High commodity prices led to increased reinvested earnings of foreign subsidiaries in extractive industries. Project growth across the region was more modest, with 14% more greenfield project announcements and a decrease in international project financing transactions.



FDI flows to structurally weak and vulnerable economies declined. While there was overall growth in developing countries, FDI in the 46 least developed countries (LDC) decreased by 16% to $22 billion, less than 2% of global FDI. Greenfield project announcements for LDCs recovered ground after the decline in 2020-2021 but remained significantly below their 10-year average. Developing countries without access to the sea and small island developing states experienced slight increases in FDI.

This analysis provides a glimpse into the complex global economic landscape of 2022, marked by various challenges and opportunities, shaping investment patterns in the coming years.

3. FOREIGN DIRECT INVESTMENT (FDI) IN EUROPE IN 2022: A COMPREHENSIVE OVERVIEW

According to Ernst & Young's predictions, Europe's investment attractiveness is increasing despite strong competition from the USA and China, and this trend is expected to continue over the next three years.

"Europe remains competitive in attracting direct foreign investments from within the continent, the USA, and other regions. The effects of the war have been significant for companies with a presence in Europe, from the accelerated rise in energy and commodity costs to economic sanctions, social tensions, and increased risks of cyber-attacks. However, it's heartening to see that investors can look beyond these challenges and consider Europe an attractive destination for long-term investments." (Bogdan Ion, EY Romania&Moldova Country Managing Partner/ EY CESA Chief Operating Officer)

Amid the economic and financial challenges caused by the COVID-19 pandemic and later the energy price crisis due to the war in Ukraine, analyses have shown that Foreign Direct Investments (in terms of project numbers) in Europe stagnated in 2022, growing only by 1% compared to 2021. They remained 7% lower than in 2019, before the COVID-19 pandemic, and 10% below the peak in 2017, as stated in the EY European Attractiveness Survey 2023, published in May 2023. Although 67% of investors - compared to 53% in 2022 - declare plans to establish or expand operations in Europe in 2023, they have expressed serious concerns regarding threats to political instability, rising costs, regulatory burdens, and the unavailability of people with suitable skills.

The creation of jobs through FDI in Europe decreased by 16% in 2022 compared to 2021. The geopolitical impact, energy crises, and economic challenges are even more apparent concerning employment: the number of jobs created in Europe in 2022 by foreign investors decreased by 16%. This decline indicates investors' caution in the face of uncertain markets and, for some, significant efforts to streamline their activities.

Key Sector: IT Services - Top Preference of Foreign Direct Investors

The most important sector for FDI projects in 2022 was software and IT services, growing by 8% - twice the growth rate of 2021 - and representing 20% of the total projects. This was followed by business services and professional services, growing by 27%.

The top three major economies in Europe, France, the United Kingdom, and Germany, continued to attract the majority of FDI flows, representing 50% of total projects. However, in 2022, their performance was reduced: FDI projects increased by 3% in France but decreased by 1% in Germany and 6% in the United Kingdom.

Country-wise Performance

1. **France:** The performance of France (1,259 projects in 2022, +3%) was boosted by economic agreements and reforms initiated by President Macron years ago, from which they are now reaping the benefits. The turbulent social situation in France and the efforts of the French government to manage high public debt and an unemployment rate of 7% should also be considered.
2. **United Kingdom:** The UK's performance likely reflects an eclectic combination of factors: inflation and energy prices, political uncertainty in 2022, and the ongoing impact of Brexit. As a leader in investments and financial services, the UK had the highest number of jobs associated with its projects and secured the second position in the European FDI ranking.
3. **Germany:** Tight supply chains, high wages, and production costs limit the ability to attract FDI projects (only 832, despite being Europe's number one economy).

In Western Europe, companies reduced their investment pace in Belgium (-4%) and Spain (-10%) in 2021, while Ireland recorded a substantial growth (+21%).

In Southern, Central, and Eastern Europe, the strong performance of countries like Italy (17% compared to 2021), Poland (+23%), Portugal (24%), Romania (+86%), and Turkey (+22%) illustrates their comparative advantage as low-cost countries, making them compelling destinations in the race for large investments in production and back-office operations.

Table 1. Summary of Major Euopean Countries' Performance

Country	Number of Projects in 2022	Number of Projects in 2021	Change 2021/22	Number of Jobs in 2022
France	1,259	1,222	+3%	38,102
UK	929	993	-6%	46,779

Country	Number of Projects in 2022	Number of Projects in 2021	Change 2021/22	Number of Jobs in 2022
Germany	832	841	-1%	33,548
Spain	324	361	-10%	39,104
Turkey	321	264	+22%	13,677
Portugal	248	200	+24%	21,944
Italy	243	207	+17%	20,313
Poland	237	193	+23%	18,483
Belgium	234	245	-4%	8,071
Ireland	184	152	+21%	23,371
Netherlands	147	151	-3%	1,334
Finland	104	124	-16%	3,755
Austria	101	103	-2%	2,913
Serbia	74	73	+1%	16,018
Romania	69	37	+86%	6,460
Total	**5,962**	**5,877**	**+1%**	**343,634**

Source: https://www.ey.com/ro_ro/news/2023/5/

These trends reveal both the resilience and challenges faced by Europe in attracting foreign investments, emphasizing the dynamic nature of the region's economic landscape.

4. FDI TRENDS IN ROMANIA IN 2022

Investor Preference and Performance

Despite challenges posed by the ongoing pandemic and the situation in Ukraine, Romania remained a preferred destination for investors in Eastern Europe. In 2022, the country ranked 16th out of 32 countries as one of the most attractive investment destinations, surpassing countries like Hungary and the Czech Republic and closely following Poland. 56% of foreign companies established or expanded their operations in Romania, placing the country fourth alongside France and behind Portugal, Lithuania, and the United Kingdom.

FDI Inflows and Sector Preferences

Romania experienced a record net inflow of foreign direct investments (FDI) amounting to 10,039 million euros in 2022, a 12.3% increase from the previous year. Detailed statistics indicated a preference among foreign investors for industries, trade, financial intermediation, and insurance sectors. The net FDI balance reached an all-time high of 107,944 million euros by the end of 2022, with 65.8% representing investments in Greenfield enterprises, indicating new projects and job creation.

Top Investor Countries

Germany maintained its position as the leading foreign investor in the Romanian economy, accounting for 14.9% of the total FDI balance. Austria, France, Italy, the United States, and the Netherlands followed, each with FDI balances exceeding 5,000 million euros.

Economic Growth and Employment

In 2022, Romanian enterprises experienced a significant increase in turnover, reaching 273,335 million euros, a 30.2% rise compared to 2021. This growth was influenced by substantial increases in energy prices due to the conflict in Ukraine. Despite challenges, Romanian enterprises increased their workforce by 2.6% compared to the previous year, reflecting the expansion and consolidation of operations at the national level.

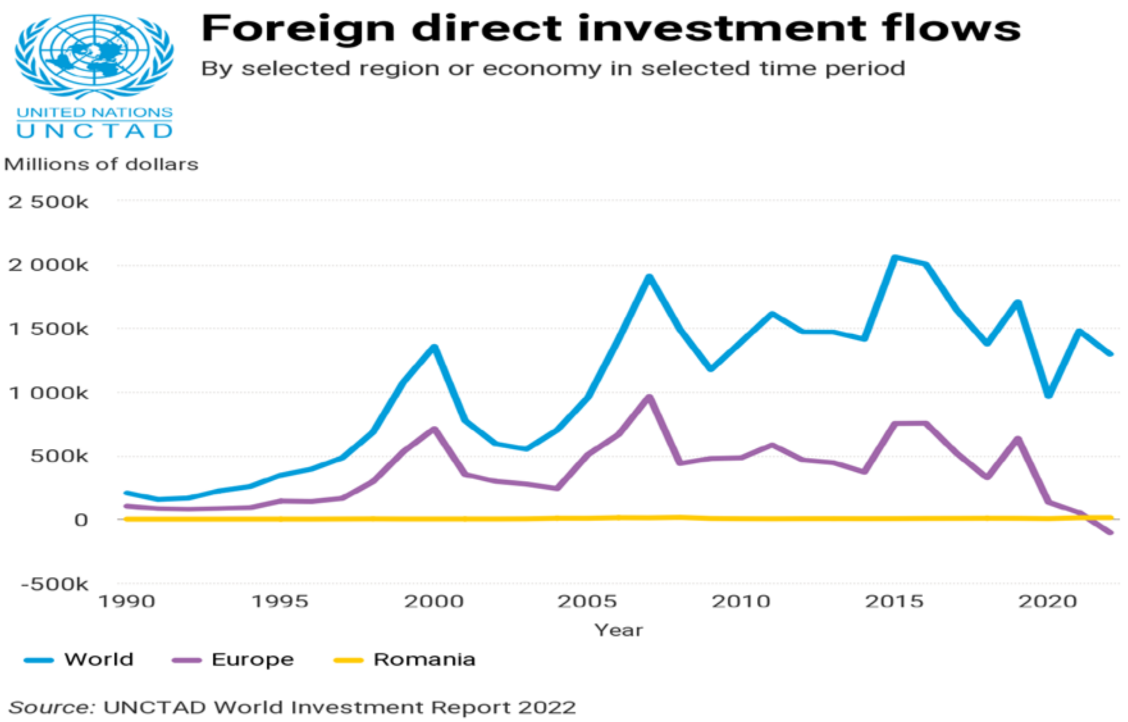
Competitiveness Challenges

Romania's historical attractiveness to investors, driven by favorable fiscal policies, cheap labor, and low energy prices, faced challenges due to rising energy costs and a deepening labor shortage caused by the conflict in Ukraine. The country's relative stability, however, continued to attract investors. Nevertheless, there were concerns about a potential reduction in investments in the coming years due to these challenges.

Future Prospects and Relocation Opportunities

Despite challenges, Romania remained optimistic about future investments, particularly due to the prospect of increased funding from the European Union. Romania's strategic position in Europe made it an attractive destination for companies relocating from conflict-affected regions like Ukraine. The country's ability to attract these businesses could be crucial in mitigating the impact of future disruptions.

The data from 2022 highlighted Romania's resilience in the face of challenges and its attractiveness to foreign investors. While concerns about energy prices and labor shortages persisted, Romania's strategic advantages and active efforts to attract investments positioned it as a competitive player in the European market.



5. CONCLUSION

Despite the uncertainties and challenges of 2022, Europe managed to preserve its attractiveness for investments, with investor sentiment mostly stable across the continent. Europe's high living standards, skilled workforce, and robust infrastructure continued to be major attractions. However, investor concerns about geopolitical tensions and economic stability affected the FDI landscape, leading to caution among investors. The European market faced competition from other regions, notably Asia and North America. Asia's rapid recovery from the pandemic and its resilient economic growth drew attention away from Europe, while North America remained an attractive destination for technology and innovation investments. Europe's investments were influenced by geopolitical tensions, global supply chain disruptions, and changing consumer behavior due to the ongoing pandemic. Despite these challenges, Europe managed to maintain a favorable investment environment, emphasizing sustainable development, innovation, and digitalization. Investment projects in Europe were diverse, covering sectors such as automotive, technology, healthcare, and renewable energy. Greenfield investments and expansions of existing businesses were prominent trends, indicating confidence in Europe's economic recovery and future prospects. The EU's commitment to climate goals and sustainable practices further enhanced its attractiveness for green investments. Romania, as an EU member state, experienced a mix of challenges and opportunities in its FDI landscape in 2022. Despite uncertainties related to the energy crisis and geopolitical tensions, Romania attracted investments in sectors such as manufacturing, technology, and renewable energy. The country's skilled workforce, strategic location, and EU membership continued to be strong assets, attracting investors looking for stable opportunities in Eastern Europe. The government's efforts to improve the business environment and infrastructure also contributed to Romania's appeal. Challenges such as inflation, energy price fluctuations, and supply chain disruptions affected investor confidence, leading to careful investment decisions. However, the overall sentiment remained positive, with investors expressing interest in long-term partnerships and collaborations. The resilience of the Romanian economy and its ability to navigate global challenges made it an attractive destination for FDI in 2022. The government's role in supporting businesses and facilitating investments played a crucial part in maintaining investor confidence. Romania's FDI landscape reflected the broader trends in Europe, with a focus on sustainable development, technology, and innovation. The country's ability to adapt to changing market dynamics and prioritize key sectors for investment positioned it as a competitive player in the European FDI landscape. As the global and regional economies continued to evolve, Europe, including Romania, remained a vital hub for international investments, driven by innovation, talent, and a commitment to sustainable growth.

Despite the challenges posed by the global polycrisis, Europe and Romania managed to maintain their attractiveness for Foreign Direct Investments in 2022. The region's stability, skilled workforce, and commitment to sustainable development played key roles in preserving investor confidence. While uncertainties related to the Ukraine conflict, energy crisis, and supply chain disruptions influenced investment decisions, Europe's resilient economy and diverse market opportunities remained appealing to investors. The trends observed in 2022 indicated a cautious yet optimistic approach from investors, emphasizing the importance of long-term partnerships and sustainable practices. As the global landscape continued to change, Europe and Romania adapted to emerging challenges, showcasing their ability to navigate complex situations and provide stable investment environments. Looking ahead, the resilience demonstrated by Europe and Romania in 2022 positions them as promising destinations for Foreign Direct Investments, with opportunities for growth, innovation, and collaboration.

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