Chapter 61
The Paradigm of the Investment Development Path:
The Applicability for The European Union Members For 1990–2014 Period

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ABSTRACT

This article describes how foreign direct investments (FDI) is one of the most important forces that influences the global economy. Along the last two and a half decades, the motivations and the field of interest of multinational enterprises (MNEs) mutated to new forms under the influence of globalization and the international financial crisis. Those two events had a dramatic impact on the evolution of inward and outward flow of FDI. The main scope of this article is to analyze the advance of the EU28 member states through the stages of the Investment Development Path (IDP) in the period from 1990 to 2014 and to explore the viability of the original model in nowadays global economy realities. The results show that FDI is useful to gauge the economics of lesser developed countries.

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1. INTRODUCTION

Foreign direct investment is no longer attributed to the exclusive use of the multinational enterprises (MNEs). There are new entities implicated in cross border mergers and acquisitions or green field projects like sovereign wealth funds, private equity firms, venture capital, state-owned MNEs or international financial organizations like International Financial Corporation (IFC) or European Bank for Reconstruction and Development.

In the last decades, a new trend can be observed. The FDI flows are initiated by companies from developing countries. New multinational enterprises from emerging economies, such as China, India or Brazil generate important FDI to developed economies such USA and European countries (Dohse et al.,2012). In fact, this trend has several waves:

- from the 1960s until the early 1980s, MNEs from developing countries (the main part from Latin America) made FDI in other developing countries, exactly neighboring economies;
- beginning in the 1980s, the MNEs (especially from Asia) have been oriented to growing foreign markets or invested in less developed economies than their home countries;
- in the last decade, MNEs from Asia have invested in developed countries and they are now net FDI exporters, a position specific to developed economies.

The developing countries removed barriers and they have engaged in a struggle to attract foreign capital, taking in considerations the positive effects of FDI on host countries (Zubovic et al. 2009; Subic et al. 2010; Zaman et al. 2011; Zaman et al., 2012, Iacovoiu 2013; Ivan & Iacovoiu 2008; Zaman & Vasile, 2012, Anghelache et al., 2014; Popescu, 2014; Munteanu, 2015; Anghel et al., 2016; Anghelache et al. 2016; Panait & Dusmanescu 2017; Podasca, 2017; Panait & Voica, 2017).

The developing countries have changed their optics on the FDI and MNEs that were consider tools of imperialism, one of the causes of persistent underdevelopment (Narula, Pineli 2016) and a threat to political and economic sovereignty of these countries (Narula and Driffield, 2012).

With the economic development of these countries, private state-owned companies invested abroad. Thus, from the receivers of FDI, these countries turned in FDI issuers. Specialists like Dunning and Narula (Narula & Dunning, 2010; Narula, & Guimon, 2010, Fonseca et al. 2016) observed that evolution of inward and outward FDI flows of a country varies in accordance with its relative level of economic development. So, a new model was designed: investment development path (IDP) model divided in five main stages that explain the nature and extent of FDI relating to the development level of the country.

With the development of a country, there is also a change to the conditions offered to local and foreign companies, with direct implications on FDI inflows. In turn, FDI influences economic structure and development of a country. Therefore, there is an interaction between the two elements. Governments can affect the conditions of a country through the creation of public goods, acting on competition and the advantages of ownership of local and foreign companies (Matei, 2004; Dracea, & Cristea, 2010; Cristea, & Drăgulin, 2016). According to this theory, countries go through five stages of development (Buckley & Castro, 1998, Narula & Dunning, 2010, Narula & Guimon, 2010).

- The first stage is specific to least developed countries (being in the pre-industrialization period): FDI flows (inward and outward) are almost nonexistent because the local market is small, the infrastructure is not adequate, and the workforce and the legal framework are poorly prepared.

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