

# Foreign Direct Investments in Europe: Trends, Challenges, and Implications for Sustainable Economic Development

By Carmen Valentina RĂDULESCU<sup>1</sup>, Ioan I. GÂF-DEAC<sup>2</sup>, Laurențiu ION<sup>3</sup>,  
Sorin BURLACU<sup>4</sup>

## ABSTRACT:

Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by an enterprise resident in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. A lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence over the management of the enterprise. A lasting interest is considered to exist if the investor acquires at least 10% of the voting power of the direct investment enterprise.

*Keywords: economy, Europe, development, investments*

## 1. Introduction

FDI represents a category of investment that presents the intention of putting in place a long-lasting interest through an enterprise resident in a unmarried economic gadget (direct investor) in an enterprise (direct investment enterprise) that is resident in an economic gadget other than that of the direct investor (Paramati et al., 2016). A lasting interest implies the existence of a long-term courting of most of the direct investors and the direct investment enterprise and a big degree of effect over the manager of the enterprise (Radulescu et al., 2020) . A lasting interest is considered to exist if the investor acquires at the least 10% of the voting electricity of the direct investment enterprise (Adams, 2009).

In the context of the expansion of the phenomenon of globalization and, therefore, the removal of political, economic and technological barriers, the ability of a country to participate in world activity is an important indicator of its performance and competitiveness (Shinwari et al, 2024). To remain competitive, contemporary international economic affairs extend beyond the traditional exchange of goods and services, taking the form of mergers and acquisitions, joint ventures, licensing agreements and other forms of business cooperation through foreign direct investment (Sorrell, 2010).

<sup>1</sup> Bucharest University of Economic Studies,

<sup>2</sup> INCE,

<sup>3</sup> Valahia University of Targoviste,

<sup>4</sup> Bucharest University of Economic Studies.

Attracting overseas direct investment (FDI) has emerged as an increasing number of researched worldwide, because it contributes to the financial boom of each making an investment and receiving countries (Mun et al., 2008).

The stage of monetary improvement and its evolution, expected via way of means of the cost of GDP and its annual evolutions, at once affect each the delivery of funding capital and the diploma of elegance of capability host countries (Dhingra et al., 2011). Studies in the field have estimated that a percentage increase in GDP in developed countries results in a 3.5% increase in FDI flows (Agrawal, 2015). The most significant impact of FDI is achieved through the activity of transnational corporations in host countries through the support of subsidiaries, provision of human resources and appropriate infrastructure. (Onu, 2012).

A special role belongs to greenfield investments, which allow the exploration of new business sectors, which stimulate the development of new infrastructure and advanced technologies in the country receiving investments (Alzaidy et al., 2017).

## 2. Foreign direct investment- European space

The duration of 2018-2023 become a duration of restoration for the sector economy, however it becomes characterized by means of many factors of fragility. Not handiest is that this restoration is uncertain, however on the opposite hand, it does now no longer influences all international locations equally. Thus, in Europe, some countries have emerged from the crisis (France, Austria, Sweden, Belgium), others have only been indirectly affected by the reduction in the pace of economic growth (Slovenia, Portugal) and others have

**Table 1. Inward foreign investment flows in EU countries in 2018-2023**

	2018	2019	2020	2021	2022	2023
Belgium	-22066	-10747	17972	52440	30792	40327
Bulgaria	2951,7	1571	3824,6	2567,1	3441,1	3826,1
Spain	35628	23603	20614	39644	23052	27627
France	23758	43069	38809	29755	34496	36754
Italy	14637	12928	11975	23350	10485	11254
Austria	315	1421	7225	26657	11825	24302
Portugal	11742	9116	1155	6615	8819	9104
Romania	12806	13022	17266	25402	23904	24267
Slovenia	70,7	739	1560,4	1287	1065,2	1152
Sweden	9464	68563	86706	129950	223179	221780

Source: [Eurostat, 2018-2023](#)

The desk above affords an evaluation of overseas direct funding withinside the length 2018-2023. The European Union contributes to the monetary increase of the making an investment nations. This monetary phenomenon is defined via way of means of the truth

that evolved nations have capital reserves and therefore, this capital is directed toward the relaxation of the world, toward income opportunities. The motion of capital to different locations is all of the extra said withinside the length because the monetary increase potentialities are incredibly modest and unsure in evolved countrie (Adhikary, 2017). Foreign direct funding withinside the European Union in 2018 and 2019 has become in addition to tormented by the worldwide economic crisis. In the period 2020-2023, European foreign investment inflows decreased: Spain from 35,628 to 20,164 million Euros; Italy from 14,637 to 11,975 million Euros.

Portugal from 11,742 million euros to 1,155 million euros. Since 2021, investments have recovered slightly with an increase compared to the period 2013-2015 as a result of the recovery of equity invested outside the EU.

In the period 2018-2021, foreign European Union investments fell sharply in Italy from 15,288 million euros to 10,912 million euros. And other countries such as (Belgium, Bulgaria, France, Portugal, Romania, Slovenia) experienced an increase in foreign investments. In 2023, investments recovered slightly with an increase compared to 20118 as a result of the recovery of equity invested outside the EU.

**Table 2. Foreign direct investment flows in EU countries in 2018-2023**

	2018	2019	2020	2021	2022	2023
Belgium	-9424	-516	6243	31780	-5615	-5212
Bulgaria	520,3	1285.5	205,7	1475,3	8728	7827
Spain	25045	34285	50689	50846	35041	38063
France	13287	39822	45887	67491	44661	52672
Italy	15288	15267	13786	12249	10912	12984
Austria	8200	-551	-2002	-24728	8864	9260
Portugal	5291	2626	-1013	2890	1941	2350
Romania	-119	1012	1266	5134	1600	2120
Slovenia	23.6	155,1	29,16	433,9	1366,6	1389,1
Sweden	181158	-33140	125899	6304	319417	309142

*Source: Eurostat, 2018-2023*

### 3. Income flows from FDI

FDI inflows are closely linked to investment stocks and are used to analyze investment productivity and calculate the rate of return on total invested funds (Duarte et al., 2017).

At the European Union level, overseas direct funding inflows elevated barely from EUR 290,080.8million in 2018 to EUR 356,256.6 million in 2021.

The pinnacle 5 nations which have benefited from excessive overseas direct funding inflows withinside the modern duration are: France (EUR 37,012 million), Belgium (EUR 19,996 million), Italy (EUR 16,638.4 million), Sweden (EUR 14,957.7 million), Spain (EUR 11,290 million).

The nations with decrease and developing overseas direct funding inflows are Austria (EUR eight,704 million), Portugal (EUR 2,331.1 million), Bulgaria (EUR seventy-seven million) and Slovenia (EUR 71.6 million). FDI sales have a advantageous effect on financial growth, enhancing overall productivity and aid performance withinside the recipient economy.

**Table 3. Foreign direct investment income in the EU in 2018-2023**

-thousand euro-

	2018	2019	2020	2021	2022	2023
European Union	290080,8	284066,8	311392,1	337732,1	356256,6	396252,8
Belgium	10437,0	13433	9334	281150	19996	22992
Bulgaria	0,4	-11	4,9	49	77	89
Spain	-	10386	11754	10183	11290	12932
France	28093	31366	34750	37359	37012	37198
Italy	15580,4	14045	8408,7	13258,5	16638,4	16632,9
Austria	5311	4311	833	8480	8704	8912
Portugal	1619	1140,5	1431,3	1296,8	2331,1	2551,8
Romania	22,2	36,9	13,3	35,9	-	40,1
Slovenia	-140	-19,3	1,4	34,9	71,6	75,9
Sweden	13701,8	16823,3	13404	11982,8	14957,7	14589,5

Source: Eurostat, 2018-2023

Foreign direct investment income includes reinvested income which consists of the direct investor's percent of income that isn't distributed as dividends thru manner of approach of subsidiaries or associates, and branch income are not remitted to the direct investor but are recorded in investment income (Awan et al., 2011).

Equity represents the subscribed and paid-in percentage capital, each in coins and through contributions in kind, held via way of means of non-citizens in resident companies, in addition to the associated percentage of reserves; accordingly, withinside the case of branches, the endowment/operating capital at their disposal is considered (Hobbs et al., 2021).

This desk offers an evaluation of FDI profits from fairness for the duration 2018-2023. Foreign direct funding profits is used to research funding productiveness and to calculate the fee of go back on general invested budget (Nica et al. 2023).

The major additives of the monetary gadgets of overseas direct funding are fairness and debt gadgets. Domestic overseas funding profits have progressively elevated over the duration 2018-2023, because of budget from the home economic system. In France, Spain,

Belgium and Italy, a extra evolved economic system and excessive funding productiveness prevail.

### 3.1 International direct investments in European space

Complex international investments involve financial, technological, managerial and organizational expertise resources over a longer time horizon, as well as the entrepreneurial control of the investing firm or individual for the purpose of carrying out productive activities in an economy other than the one in which the firm or individual is resident (Jugurnath *et al.*, 2016).

International direct investment is represented by the net international investment position indicator (NIIP), which summarizes its pure equity components, equity shares and foreign direct investment (FDI), as well as cross-border foreign investment debt (Cuyvers *et al.*, 2011). The indicator is based on annual figures from the balance of payments from Eurostat and is calculated as the difference between net direct investment and net portfolio capital. It is calculated as % of GDP per capita (Makiela& Ouattara, 2018).

Analyzing the desk in Table 4, a boom in worldwide direct funding as a proportion of GDP may be determined for the duration of the length 2018-2023. The international locations that have benefited from a higher number of international investments as a share of GDP are Slovenia (6.3%), Bulgaria (3.5%) followed by Italy (2.6%).

Slovenia is the most attractive country from an investment point of view with a share of 3.3%, followed by Spain which has 1.3 percentage points less than Slovenia, the lowest shares being recorded by France (-0.5%) and Romania (-0.8%).

In 2019, it is noteworthy that Slovenia maintains its position regarding the percentage ratio between foreign direct investment and GDP, which also records a 54.5% increase compared to the share recorded in 2018. Austria also shows an increase of 0.6 percentage points, with Italy being the third country with a share of 1.9%, thus recording an increase of 0.8 percentage points.

The year 2020 is marked by a decrease in the share of FDI in GDP within the 3 countries (Slovenia, Austria, Italy), which in previous years showed an upward trend, recording decreases of up to 1.3 percentage points. In fact, the lowest values were recorded by Romania (-0.6%) and France (-0.4%).

**Table 4. International direct investment as a share of GDP in the period 2018-2023**

	2018	2019	2020	2021	2022	2023
Belgium	1.2	0.9	1.5	0.7	1.3	1.7
Bulgaria	1.5	1.3	0.2	3.3	3.6	3.8
Spain	2.3	1.7	2.1	3.3	2.6	2.5
France	-0.8	-1.2	-0.7	-0.6	-0.8	-0.5
Italy	1.4	2	1.5	2.7	2.8	2.5
Austria	1.9	2.4	1.8	2.8	1.7	2.4
Portugal	1,7	0.3	0.3	1.3	1.5	1.6
Romania	-0.9	-0.3	-.0.7	-1.5	-2.5	-2.8
Slovenia	3.4	5.2	3.9	4.7	6.5	6.5

*Source: Eurostat, 2018-2023*

From an investment point of view, the year 2023 is marked by the highest share of 6.4% belonging to Slovenia, which recorded an increase of 1.5 percentage points. In parallel, Italy remains constant compared to the previous year, and Romania is the country that is in a continuous decline reaching -2.8%, being the lowest share in the period 2018-2023.

#### 4. Foreign direct funding in financial activity

Foreign direct investment in economic activities includes the construction of a factory (greenfield), the acquisition or concession by a company of existing production facilities in order to launch a new production activity (brownfield), as well as a takeover or merger, and control can be manifested both over the activities carried out within a company and over management. The economic activities of FDI are found in tangible and intangible assets at a significant level (Nguyen, 2022).

**Table 5. The position of foreign direct investment in economic activity in the period 2018-2023**

	2018	2019	2020	2021	2022	2023
European Union	6.971.095,2	7.863.078,6	9.022.271,0	9.335.765,6	9.784.648,6	9.934.520,2
Belgium	291.006,0	402.308,0	487.517,0	583.476,6	585.511,0	567.531,5
Bulgaria	974,2	630,0	773,3	1.098,5	1.184,9	1.352,4
Spain	183.444,0	208.306,0	206.985,0	204.971,0	204.971,0	206.872,3
France	572.369,0	622.264,0	666,986	683.931,0	721.626,0	735.325,1
Italy	269.541,8	270.141,1	277.924,2	270.618,6	277.923,1	276.321,6
Austria	124.297,0	136.580,0	131.209,0	140.206,0	148.205,0	149.235,0
Portugal	39.170,6	33.522,8	40.771,3	42.394,6	39.821,8	40.521,2
Romania	401,5	360,0	958,9	989,0	461,1	652,5
Slovenia	2.122,0	2.359,5	2.329,5	2.470,1	2.788,3	2821,4

*Sursa: Eurostat, 2018-2023*

Evaluating the data in the previous table, regarding the position of foreign direct investments in economic activity in 2018, it can be observed that France is the most attractive country from an investment point of view, holding a value of 572,369.0 million euros, followed by Belgium, which holds 281,363 million euros less than France, the lowest values being recorded by Bulgaria 974.2 million euros and Romania 401.5 million euros.

In the years 2019-2023, it is noteworthy that France maintains its position regarding foreign direct investment in economic activity, which also records an increase, reaching 721,626.0 million euros in 2017 compared to the value recorded in 2018. Belgium also shows an increase of up to 585,511 million euros, with Italy being the third country holding 277,923.1 million euros in 2022, thus recording approximately the same values, 277,924.2 million euros in 2015.

Belgium, Italy and Spain remain the most attractive countries in terms of FDI in economic activities, while Romania is the country that is in decline, reaching 461.1 million euros, the lowest value in 2018.

In terms of orientation on monetary branches, overseas direct investments have been positioned specially in offerings and the producing industry. Within this industry, the quality represented branches are oil processing, chemicals, rubber and plastics and the meals industry.

**Table 6. Foreign direct investment in services in the period 2018-2023**

	2018	2019	2020	2021	2022	2023
European Union	4,561,653.3	5,373,855.7	6,266,635.7	6,562,742.1	6,980,617.1	7,682,621.1
Belgium	241,240.0	293,635.0	345,628.0	448,963.0	446,899.0	447,834.0
Bulgaria	549.9	410.0	488.4	699.4	743.1	769.5
Spain	126,623.0	127,173.0	142,072.0	159,954.0	158,625.0	160,621.0
France	348,059.0	360,427.0	395,106.0	404,750.0	440,798.	401,638.8
Italy	209,107.5	211,2582.0	222,220,2	211,929.9	209,837.1	210,937.2
Austria	(c)	(c)	(c)	(c)	(c)	(c)
Portugal	35,008.5	40,176.9	47,370.5	44,347.9	44,496.9	45,635.7
Romania	332.6	274.2	897.9	924.0	381.5	421,8
Slovenia	1,004.0	1,146.1	1,074.7	1,184.1	1,220.6	1,298.7

Source: <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

The top FDI destinations in the countries analyzed from 2018-2023 represented a share of over 90% of both the service and industrial sectors; services holding over 50% of total FDI, the exception being Romania; most investments being destined for the agricultural sector.

## Conclusion

In conclusion, the European Union is certainly considered one among the most important traders within the world, overseas direct funding is a primary device for monetary improvement and increase. The contribution of overseas direct funding to the monetary increase and improvement of European international locations within the duration 2018-2023 is undeniable, because of the contribution made to technological improvement.

Foreign direct funding depends upon some factors, including the political and monetary situation, infrastructure, human capital, countrywide regulations and the extent of bureaucracy. Economic reforms are essential in contributing to attracting overseas direct funding and their performance will increase if the felony framework is stable, obvious and non-discriminatory.

The tremendous effect of FDI withinside the host country`s financial system relies upon its absorption capacity: the first-rate of human capital, the diploma of monetary and technological improvement, the stableness and elegance of legislation.

Thus, in Europe, a few international locations have truly emerged from the crisis (France, Austria, Sweden, Belgium), others have handiest been not directly stricken by the discount withinside the tempo of monetary increase (Slovenia, Portugal) and others have very low increase (Bulgaria, Romania).

FDI flows withinside the European Union decreased, however partly recovered in 2023, with a growth because of reinvested earnings contributing maximum to this tremendous change. Foreign direct funding has contributed to boosting monetary increase, developing jobs and producing productiveness and favoring integration into worldwide manufacturing chains.

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