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INTERNATIONAL TRADE AND FDI: TRENDS, CHALLENGES, CONTROVERSIES

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Abstract: *International trade and FDI are marked by new trends and challenges at the international level, and by a complex and constantly changing economic landscape. Factors such as sustainable development and the green economy, digitization and technology, geopolitical factors and innovative research methodologies significantly influence trade and investment. In the context of globalization, the growth of international trade, influenced by the increase in the share of services and electronic commerce and the decrease in FDI flows and the economic instability generated by the deglobalization of production, geopolitical tensions and fracturing along geopolitical lines and global value chains, are just some of the global trends and challenges in trade and investment, the overall landscape being much more complex.*

Key words: *trade, FDI, global value chains, world economy*

JEL: F1, F6, O1

1. Introduction

International trade in goods and services and foreign direct investment (FDI) flows are fundamental drivers of global economic interactions, which, in response to emerging challenges, are in continuous evolution. The traditional frameworks that once governed these interactions are being challenged and enhanced by trends and challenges. Technological advances, geopolitical shifts, sustainable development goals and changes in consumer behavior have reshaped the patterns and flows of cross-border trade and investment, with the international trade and investment landscape undergoing significant transformation.

At the center of these developments lies a fundamental reevaluation of how nations engage in trade and attract foreign investments. Traditional measures, such as tariffs and quotas, are now complemented by considerations of digital economies, sustainable practices, and regional integration efforts. Furthermore, the dynamics of FDI have evolved beyond simple capital inflows, encompassing knowledge transfers, innovation ecosystems, and strategic alliances that redefine global economic competitiveness.

The main goal of this work is to delve into the fundamental trends shaping global economic integration, as well as analyze the fundamentals components of the world economy: trade and investment, along with their evolution, trends, and future prospects for sustainable economic development and global cooperation in the 21st century.

2. Basic content

In a constantly changing world, trade and investment, which are the main engines of growth and catalysts of productivity, competitiveness and the integration of the world's economies into the global economic system, are influenced by new trends and challenges, generated by the phenomenon of globalization, which seeks to create a global system where people, goods, capital, etc., are freed from the geographical context.

An analysis of global macroeconomic indicators – GDP and trade – shows a continued upward trend; If until 1980 the growth was a slow one, after - with the intensification of the fragmentation of production processes and the development of global value chains, as well as the expansion of transnational corporations, international trade registered rapid growth rates of approximately 10% annually between 1980 and 2000 and an annual increase of 20% between 2000 and 2008. Following the major economic crisis of 2008, international trade experienced a sharp decline, followed by steady growth until 2014—when global political and economic events (the outbreak of the war between Ukraine and Russia, operations in the Gaza Strip, the escalation of conflicts between Iraq and Syria, the collapse of oil prices, etc.) caused a new decline. The COVID-19 pandemic was the "generator" of the collapse of trade operations in 2019-2020, due to the "closure" of borders and a drastic reduction in trade exchanges, particularly with China. However, after 2020, international trade experienced the fastest and broadest growth to date—resulting from the surge in online activity and the rise of e-commerce, which, since 2022, has held over 20% of the retail sales market. (World Trade Report, 2024)

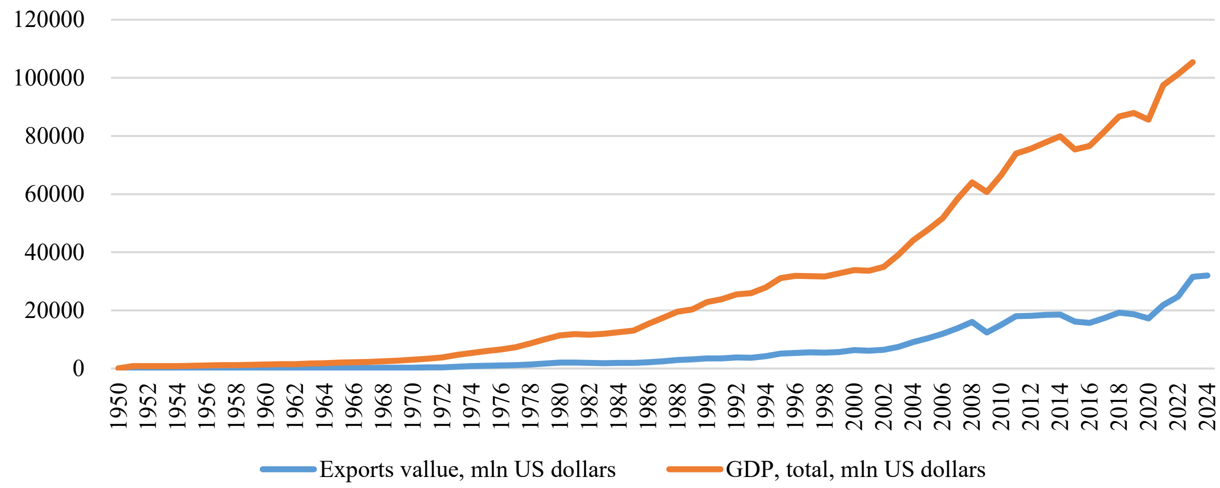

Figure 1: Evolution of trade and GDP

Source: developed by the author based on World Bank (GDP) and UNCTAD (Export) data.

From the graph above, it is evident that international trade has seen a continuous rise over the years, so that from 1950 to 2000, the value of exports increased more than 100 times – from 63 MLN to 6390 MLN; From 2000 to the present, the value of exports has increased more than 5 times, in 2023 the trade value being 32 TRLN US dollars.

Another evident point is that *the global economy is supported by the entire network of global value chains* (UNCTAD, 2013), and economic growth and development can occur only within a complex ecosystem based on economic development models focused on market liberalization, participation in global value chains, and a high degree of productivity. The latter are catalysts of economic development, where economic growth and competitiveness are interdependent, supporting the overall viability of an economy.

The current dollar value of global merchandise trade (measured by the average of exports and imports) decreased by 5% in 2023, reaching $24.01 trillion. The decline in exports was driven by the Russian Federation, whose exports fell by 28%, as well as by Asian economies oriented toward

production, including China (-5%), Japan (-4%), and South Korea (-8%). Other major economies recorded smaller declines or even modest increases, including the United States (-2%), Germany (+1%), and Mexico (+3%). Overall, the European Union's exports to the rest of the world grew by 2%, while intra-EU trade decreased by 1%, leaving total exports unchanged in U.S. dollars. Meanwhile, imports of goods fell in most economies, partly due to declining prices for commodities such as natural gas, which saw an average price drop of 63% in 2023. All major economies recorded a decrease, except for a few large energy exporters, including the United States (+7%), the United Arab Emirates (+7%), the Russian Federation (+10%), and Saudi Arabia (+11%).
In the figures below, the overall evolution of international trade in goods and services can be seen, as well as the level of participation of the main actors in international trade:

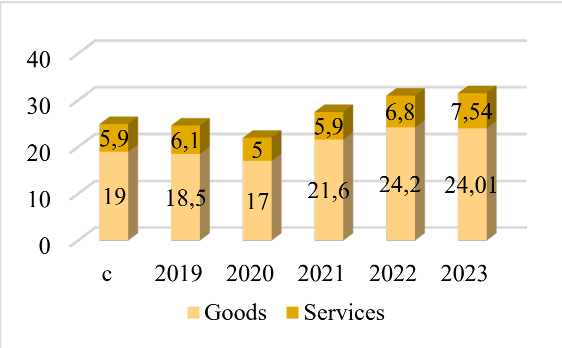

Figure 2: Global market for goods and services, in trln US dollars
Source: WTO. World Trade Statistical Review, 2023.

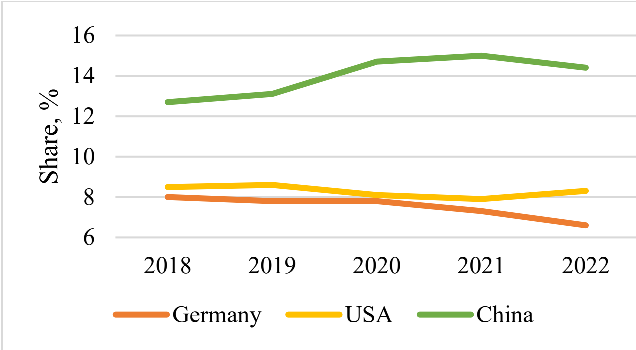

Figure 3: Top exporters of goods
Source: WTO. World Trade Statistical Review, 2023.

According to the *World Trade Statistical Review 2023* of the WTO, the top ten economies participating in international trade represent almost 50% of global trade: China (14.4%), USA (8.3%), Germany (6.6%), Netherlands (3.9%), Japan (3%), Republic of Korea (2.7%), Italy (2.6%), Belgium (2.5%), France (2.5%) and Hong Kong (2.4%). The first three of these, or the major economies participating in international trade flows, China, the US and Germany, control almost 30% of trade flows.

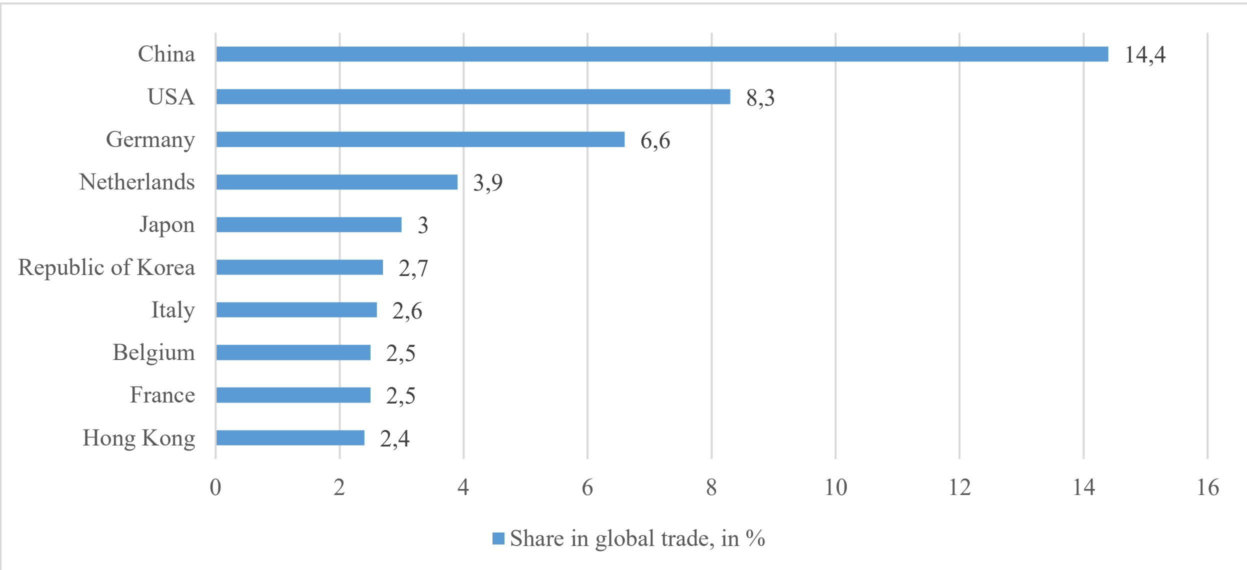

Figure 4: TOP 10 countries participating in international trade
Source: WTO. World Trade Statistical Review, 2023.

Since 2008, when China surpassed the major leaders in international trade—the USA and Germany, who alternated at the top position since 1982—China has remained the leading country in international trade and the largest exporter of goods worldwide, followed by the USA and Germany in second and third place, respectively. (UNCTAD, Trade Analysis)

According to the *Global Trade Outlook and Statistics* published by the WTO in 2024, **the volume of global merchandise trade is expected to grow by 2.6% in 2024 and by 3.3% in 2025**—indicating a rapid ascent and the achievement of new heights in international trade, projected to reach $36 trillion by 2025.

For the first quarter of 2024, global trade trends have become positive, with the value of merchandise trade increasing by approximately 1% compared to the previous quarter, and services rising by about 1.5%. This growth, fueled by the positive trade dynamics characteristic of the United States and developing Asian countries, is expected to contribute approximately $250 billion to goods trade and $100 billion to services trade in the first half of 2024, compared to the second half of 2023.

According to the *UNCTAD Report on Global Trad*e in 2024, trade growth varied significantly across sectors, with green energy and products related to artificial intelligence registering stronger increases. The commercial value of electric vehicles has also grown considerably, by around 25%.

In the context of geopolitical tensions, the trend towards renewables and technological advances, especially in artificial intelligence (AI), have led to an increase in government interventions in the economy. Developed and emerging economies focus on support measures aimed at increasing the competitiveness of strategic industries, supporting local companies to specialize and provide strategic products that meet environmental standards and market needs. Policies such as the US Inflation Reduction Act, China's Made in China 2025 initiative and the EU's Net Zero Industry Act are largely motivated by strategic considerations related to the rapidly evolving environmental, technological and geopolitical landscape.

How does this affect global trade? Political interventions take the form of industrial policy – which aims to increase the competitiveness and performance of specific industries to enhance adaptability to market demands and structural changes in the context of globalization. From a commercial point of view, the industrial policy aims at the development of SMEs and the cooperation between them, in order to substitute imports, support domestic producers and facilitate vertical consolidation; Such interventions usually have a negative effect on trade. All these trends can generate a series of global challenges in the medium and long term:

- **Increased concentration of supply:** Industrial policy may increase the concentration of the global supply of strategic products in even fewer economies. By providing substantial subsidies to their own industries, developed countries and major emerging economies are expected to enhance their global competitiveness in these sectors. This will impact not only their domestic markets but also the context of global trade, marginalizing smaller economies from entering these profitable markets, which could have significant implications for developing countries.
- **Fragmentation of global trade among major blocs:** The fragmentation of the market into major blocs, generated by geopolitical tensions, the revision of global value chains, the hegemony of developed states, etc., can have a significant impact on the market, characterized by increased trade costs, welfare losses, but also a divided economic landscape, with major benefits for developed economies and minimal for developing economies.
- **Increased protectionism, trade costs, and uncertainty:** Unilateral measures, such as industrial policies, frequently disrupt trade dynamics. As a result, trading partners may react by

imposing trade restrictions, increasing protectionist measures, and potentially engaging in retaliatory actions that threaten the integrity of the rules-based global trading system.

The positive outlook for trade growth presented by UNCTAD remains strong, indicating that the factors discussed reflect trends in trade activity rather than the overall value of trade. This highlights a hegemonic view of trade flows in favor of developed economies; the creation of "monopolies" in strategic sectors such as information technology, the green economy, infrastructure projects, and an uneven increase in trade, with high values for developed countries and multinational corporations, and low values for developing countries development and small and medium-sized enterprises (SMEs).

In addition to monitoring trade flows and global trends related to imports, exports, leading countries and strategic sectors, it is essential to study foreign direct investment (FDI) trends and prospects, which are essential to understanding the impact of globalization .

Acoording to UNCTAD`s *World Investment Report 2024*, in 2023, FDI flows reached $1.33 trillion, marking a 2% decrease compared to 2022. This figure was influenced by significant fluctuations in a few European conduit economies. When excluding these conduits, global inflows experienced a decline of over 10%. FDI inflows to developing economies, which had shown resilience in recent years, dropped by 7% in 2023. In developed economies, net of conduit effects, inflows decreased by 15%. This decline was impacted by corporate financial restructuring, partly due to efforts to implement a global minimum tax for large multinational enterprises (MNEs), as well as a substantial reduction in the value of cross-border mergers and acquisitions (M&As).

In contrast, there was a slight increase in greenfield project announcements, both in terms of quantity and value. This growth was primarily driven by a rise in manufacturing industry announcements, marking a departure from a decade-long trend of decline in this sector. Chinese firms played a significant role in this uptick in manufacturing projects. Notably, the increase in greenfield investment was observed solely in developing countries, where the number of announced projects rose by 15%. In developed countries, however, new project announcements fell by 6%.

Developed countries represented 35% of global FDI flows, a share that has been steadily decreasing. It was only in 2019 that their portion fell below 50% for the first time. Despite this decline, developed economies continue to attract the majority of greenfield projects and international project finance deals.

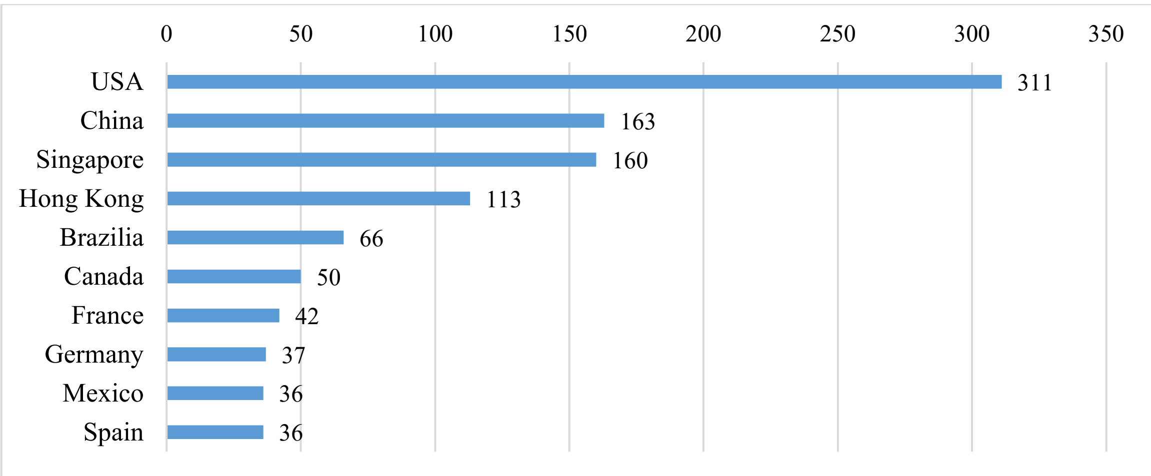

Figure 5: FDI inflows, billion US dollars, 2023

Source: UNCTAD. World Investment Report 2024

In developed economies, financial transactions by multinational enterprises (MNEs) contributed to fluctuations in FDI. When including conduit flows, the overall figure for FDI inflows reflects a 9% increase; however, excluding these conduits, FDI actually decreased by 15%.
On the other hand, inflows to developing economies fell by 7% in 2023, primarily due to an unusual downturn in Asia. Despite this decline, FDI continued to be the largest source of external financing for these economies, comprising 44% of total financial inflows for the year, while remittances, development assistance, and portfolio investment accounted for the remainder.
On investment outflows: In 2023, FDI flows from developed economies rose by 4% to $1.1 trillion. Similar to FDI inflows, corporate restructurings in Europe had an impact on FDI outflows. Several investment-hub countries with significant conduit FDI experienced large negative outflows, though these were less negative than in 2022, resulting in a net positive gain. Excluding the effect of these conduits, global outflows were approximately 10% lower. More, FDI outflows from developing economies decreased by 11% to $491 billion.
The United States and Japan were the leading home countries for investors in 2023. Outward FDI rose by 10% from the United States and by 14% from Japan, contrasting with the overall trend for developed countries. In Europe, outward investment decreased by 11% when excluding five conduit countries. Germany, Sweden, and Spain, which are known for their significant outward investors, all saw declines in their outflows. In contrast, FDI outflows from France, another major investor country, increased by approximately one-third. Among the 20 largest economies by outward FDI flows, Asian countries now account for nearly half (9 in total), with changes in the relative rankings of India and Taiwan.

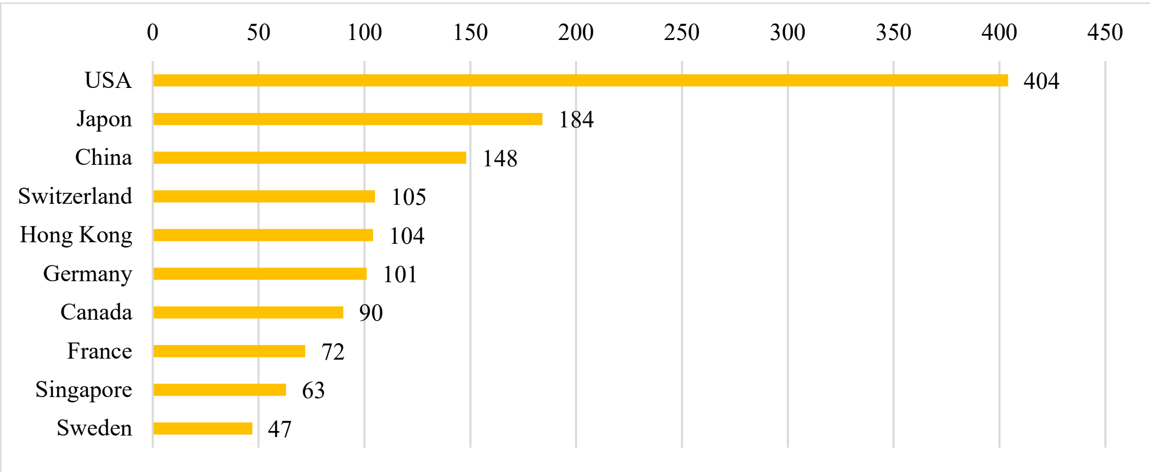

Figure 6: FDI outflows, 2023

Source: UNCTAD. World Investment Report, 2024

In 2023, greenfield project announcements, especially in industrial sectors, increased in both number and value, continuing the strong growth from 2022, particularly in renewable energy. Despite this growth, project finance, primarily in infrastructure, declined. Infrastructure projects are sensitive to interest rate changes due to their significant debt components, but overall values remained high compared to pre-2021 levels. A decrease in cross-border M&A values, especially in the ICT sector, contributed to this decline. The renewable energy sector led greenfield infrastructure projects, representing over 45% of announcements and 65% of expenditures, with announcements rising from fewer than 700 in 2015 to over 2,000 in 2023. Additionally, investors tend to switch between project finance and greenfield FDI based on changing financial conditions.

The majority of greendfield projects of major interest for investors are in the field of: Electronics and electrical equipment (185 274 mln dollars), Automotive (90 979 mln dollars), Semiconductors (55 271 mln dollars), Machinery and Equipment (23 424 mln dollars) and Textiles, clothing and leather (17 062 mln dollars). The number of greenfield project announcements in digital industries fell by half – 187 projects in 2023, compared to 344 in 2022 and 378 in 2021. The value of these projects reached 20 382 mln dollars, the vast majority returning to e-commerce projects (102 projects, with a value of 17 178 mln dollars).

The report, titled Global Economic Fracturing and Changing Investment Patterns, warns that factors beyond economic determinants are increasingly shaping investment decisions, complicating standard approaches to investment promotion.

From the graph below, it is evident that the growth of FDI and global value chains is aligned with the growth of GDP and trade, indicating a significant shift in the global economy; Since 2010, global GDP and trade have grown by an annual average of 3.4% and 4.2% respectively, even amid rising trade tensions. Meanwhile, FDI growth has stagnated close to zero in recent years - being in decline.

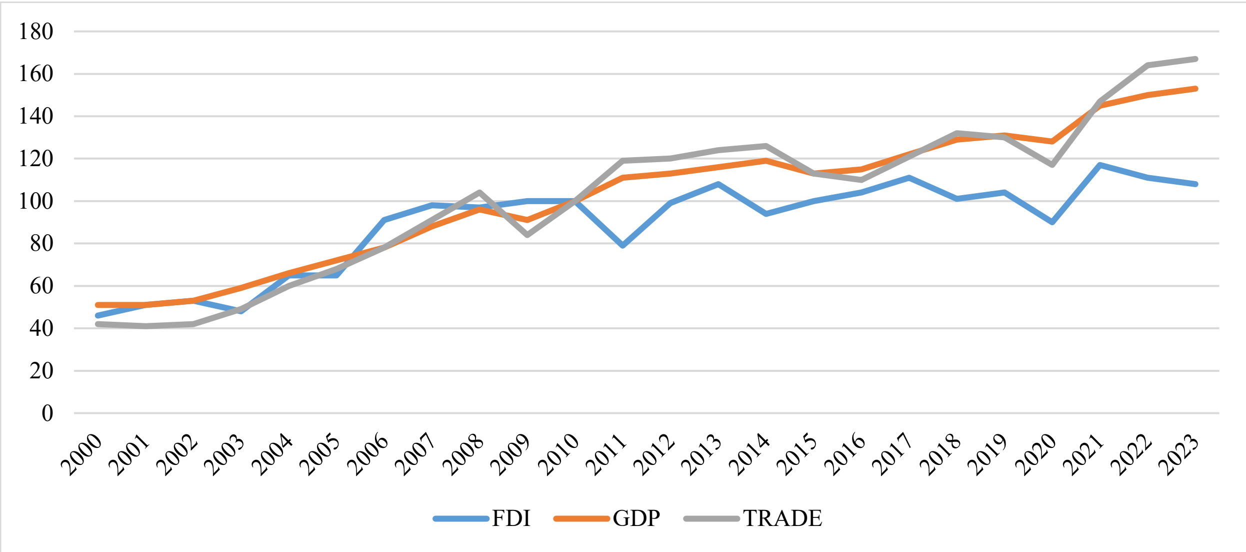

Figure 6: Foreign direct investment (FDI), gross domestic product (GDP) and trade trends, indexed 2010 = 100

Source: Adapted by the author from UNCTAD data, Financial Times Ltd, fDi Markets (www.fDimarkets.com).

This gap reflects increased investor caution due to changes in international production and global value chains, rising protectionism and rising geopolitical tensions. Given the trends and challenges outlined above, it is paramount for the world's economies:

- To review their economic development strategies and models, because the traditional dependence on investments no longer guarantees economic growth and development
- To strengthen relations with neighboring countries and regional cooperation, in order to strengthen regional value chains.
- To promote investments in sustainable and green technologies, as well as in other sectors, based on sustainability objectives and policy considerations.

3. Conclusions

International trade and foreign direct investments, which, among other things, are some of the main indicators of the economic situation and competitiveness of a country, know an evolution marked by the world economic and political landscape; The decision to invest, as well as the decision to trade or not, is deeply influenced by the geopolitical factor, by the objectives of sustainable development, by human capital and its ability to innovate, etc.

Actually, FDI flows are characterized by: Long-term stagnation; Deglobalization of manufacturing from an FDI perspective; The diminishing role of FDI in China; Fracturing along geopolitical line and the sustainability imperative. In the context of the sustainable development goals and the directives adopted by the countries and regions of the world in this regard, the FDI trends are facing an increased interest in sustainability, environmental objectives and sustainable technologies, the sector of green economy and all of its parts being of strategic interest for investors.

International trade, driven by the exchange of goods and services across borders, is undergoing significant transformations that complement FDI trends:

1. **E-commerce revolution**: The rapid growth of e-commerce is reshaping global trade patterns, enabling small and medium-sized enterprises (SMEs) to participate more actively in international markets. Platforms like Alibaba, Amazon, and eBay facilitate cross-border trade, offering new opportunities for businesses worldwide.
2. **Digitalization of trade**: This includes online payment systems, blockchain technology for supply chain management, and digital trading platforms.
3. **Expansion of trade in services**: Driven by sectors such as telecommunications, finance, and tourism, the cross-border movement of services is increasingly facilitated by advancements in communication technology and regulatory frameworks.
4. **Resilience strategies**: Businesses are diversifying their supply chains and adopting resilience strategies in response to geopolitical uncertainties and disruptions such as the COVID-19 pandemic. This includes reshoring production, nearshoring, and investing in dual supply chain models.

The outlook for international trade is positive, with expectations to reach \$36 trillion by 2025, compared to \$34 trillion in 2023. Conversely, FDI seems to be experiencing downward trends in the context of global political shifts, yet the same leading countries—primarily the U.S.—remain dominant in rankings as the world's economic hegemon.

Given these developments, it is crucial for countries worldwide:

- To review their economic development strategies and models, because the traditional dependence on investments no longer guarantees economic growth and development
- To strengthen relations with neighboring countries and regional cooperation, in order to strengthen regional value chains.
- To promote investments in sustainable and green technologies, as well as in other sectors, based on sustainability objectives and policy considerations.

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